

PANAMA



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PANAMA

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SUMMARY

The strategic importance of Panama to the US arises from the fact that its territory adjoins the Panama Canal. As a consequence, any country that initiates hostile operations against the US can be expected to launch concurrent hostile operations against Panama. Since Panama is physically incapable of protecting itself, and since the US cannot afford adequate protection to the Canal in case of war without military control of the territory of Panama which adjoins it, the two countries have closely bound themselves to one another by formal treaty.

The two countries are also closely linked economically. Thirty-seven to 40 percent of Panama's national income is derived from the US Canal Zone, and the US takes approximately 90 percent of Panama's exports and supplies her with approximately 87 percent of her imports.

Panama's international position, as a result of the intimacy of these ties with the US, is thus that of a quasi protectorate, and this subordinate position forms the basis of all problems inherent in the relations between the two countries.

Panama's spirit of nationalism requires that any government in office — if it is to survive politically — deny any inference that it is a quasi protectorate of the US and strive to promote its position as a sovereign and independent country within the family of nations. However, Panama, as the host nation of the Canal, is aware of the benefits to be derived from close relations with the US and is consequently reluctant to press its independence beyond the point which might jeopardize the support for which it depends on the US.

Somewhere between these two opposing objectives each administration in Panama must formulate its basic policy. Since the attitudes which particular Panamanian political parties and individuals adopt toward this dichotomy of policy is variable, the relationships between the two countries is not constant, but rather continuously subject to re-examination and reorientation according as one or the other of the two objectives seems more relevant to the particular *ad hoc* decision Panama finds itself obliged to make.

Note: The information in this report is as of 1 December 1947. It was circulated to the IAC agencies for comment on 26 January 1948.

The intelligence organizations of the Departments of State, Navy, and Air Force have concurred in this paper. The Intelligence Division, Department of the Army, concurs with those sections which have direct military implications.

SECTION I POLITICAL SITUATION

1. GENESIS OF THE PRESENT POLITICAL SYSTEM.

Panama was originally a province of Colombia; its status as an independent country dates back to 1903, when it was recognized as such by the US. Among the factors that precipitated the separatist revolt against Colombia were: (a) dissatisfaction on the part of influential Isthmian citizens with the remote and allegedly centralized and corrupt rule of the province by the authorities in Bogotá; (b) these citizens' fear that Colombia's dilatory tactics would preclude the construction of a trans-Isthmian canal by the US; and (c) the activities of French interests seeking to assure construction of the canal in Panama.

2. PRESENT GOVERNMENTAL STRUCTURE.

The traditions of Colombian Roman law were incorporated into the civil code adopted by the nascent Panamanian Government, which also used the US-inspired Colombian constitution as a model for its own. Indirectly, the Constitution of the US thus influenced the governmental forms adopted: the latter were, for example, based on the concept of separation of powers among the executive, legislative, and judicial branches, though with a greater concentration of power than the US had, at that time, ever known. Because its framers feared retaliation by Colombia and recognized the paramount interests of the US, they included in the original 1904 Constitution the provision that the "US may intervene in any part of the Republic of Panama to re-establish peace and constitutional order in the event of their being disturbed."

Panama's present constitution, although based on that of 1904, was adopted in March 1946. Many Panamanians had, by the early forties, become convinced that some of its provisions, especially those pertaining to citizenship, fundamental guarantees, labor, and the right of the US Government to intervene were no longer satisfactory. A National Constitutional Assembly (the predecessor of the present Jiménez Administration as the Government of Panama) was accordingly convened to draft the constitution now in effect.

The Panamanian Government consists of a legislative branch (the National Assembly), an executive branch, and a judicial branch.

a. The Legislative Branch.

The unicameral National Assembly convenes annually and is composed of deputies popularly elected for a period of four years. There is one deputy for each 15,000 people, a guarantee of one deputy each to provinces with less than 15,000 inhabitants. The National Assembly has legislative powers analogous to those of the US Congress, including the judicial function of trying the President, judges of the

Supreme Court, members of the Tribunal of Administrative Controversy, and its own members in any case involving violation of the constitution. It also performs such nonlegislative functions as that of passing on certain executive appointments, appointing investigative commissions, and "censuring" Ministers of State.

As in some European countries, there is a Permanent Legislative Commission, made up of five Assembly members, that sits during Assembly recesses, prepares projects for consideration by the Assembly in its next session, and acts as a "watchdog" vis-a-vis the President with respect to the prerogatives of the legislative branch.

b. The Executive Branch.

The constitution provides for a President and two Vice Presidents, elected by direct suffrage for a period of four years, for an appointive Secretary General of the presidency, and for Ministers of State appointed by the President (collectively they constitute a Council of Cabinet). In general, the executive powers are analagous to those of the US Constitution, except that the Panamanian Executive has wider appointive powers. The Panamanian system is not federal in character: the governors of the provinces and the heads of some of the municipalities are appointed by the President. There are no provincial legislative bodies.

c. The Judicial Branch.

The constitution provides for a Supreme Court of Justice of five "magistrates" (named by the President with the unanimous approval of the Council of Cabinet and subject to approval by the National Assembly), and there are subordinate courts and tribunals established, as in the US, by law rather than by constitutional provision. "The guardianship of the integrity of the Constitution," according to the language of that document itself, "is confided to the Supreme Court." The so-called Public Ministry, headed by an Attorney General elected for a 10-year term by the National Assembly, is, under the Panamanian Constitution, regarded as part of the Judicial Branch: its duties include the prosecution of crimes, the promotion of the execution of the laws, "defense" of the interests of the nation "and its provincial and district subdivisions," and the supervision of the "official conduct of public functions."

The privilege of municipal self-government is vouchsafed by the constitution, which expressly provides that the "State rests on a community of autonomous municipalities." However, the mayors of some municipalities are appointed by the President, while others, notably those of Panama City and Colón, are elected for a four-year term. Some of the municipalities have elected municipal councils.

Although the theory of the constitution is, in general, respected in actual practice, this does not mean that constitutional democracy is on as firm a footing in Panama as in the US or Great Britain. Political bickering and intrigue are "in the blood" of the country's influential leaders, and the Panamanians do not place so high a value on observance of the supreme law as do the Anglo-Saxon countries. Furthermore, a large portion of the electorate — despite its several decades of experience with democratic government — remains venal, and the extensive patronage powers of the Executive and the emoluments to be gained from public office give the "ins" great oppor-

tunities to influence the outcome of elections. Since this means, in effect, that the party or group in power can hardly be ousted by electoral methods, the *golpe de fuerza* is a familiar Panamanian political technique. It is, indeed, hardly too much to say that a President who has gained power through a cleverly managed coup is likely to be respected and followed.

Freedom of assembly, of speech, of religion, and of the press are guaranteed by the constitution, as is private property; and these guarantees are for the most part observed by the Panamanian Government. The constitution expressly rejects the principles of economic *laissez faire*, recognizing that "relations between capital and labor are an affair of ordinary law", guarantees the "conditions necessary for a normal life" to the worker, and "compensation proportionate to investment" to capital. Labor's rights to strike and to a minimum wage are also guaranteed.

A unique feature of the Panamanian Constitution is the provision that virtually excludes all foreigners save US citizens from retail trade and authorizes a similar exclusion from wholesale trade. This provision reflects the power of the shopkeeper and the trader in Panamanian political life.

3. POLITICAL PARTIES.

Both the composition and the alignment of Panamanian political parties undergo constant change. At the present time it is possible to identify seven political parties which are important enough to have, in one way or another, an impact upon events, and can, therefore, be expected to influence the 1948 Presidential elections.

a. The United Liberal Party (*Partido Liberal Unido — PLU*).

As the major political support of the Jiménez Administration, the United Liberal Party regards the 1946 Constitution as the embodiment of its guiding principles. Despite the party's broad official pronouncements concerning the benefits to be gained from state control and planning, its actual practice indicates a strong preference for *laissez faire* in economic matters. It opposes the "infiltration" of Panama by foreigners (an emphasis from which, however, it excepts US citizens), pleads for popular acceptance of the idea of government-sponsored public works (its reasoning on this point is along pump-priming and developmental lines rather than socialist lines), and favors certain specific measures (completion of the Pan American Highway, intensified inter-American cooperation, lower taxes, a balanced budget, etc.). There is reason to believe that it is decidedly more sympathetic to the US point of view on the defense-sites problem than day-to-day Panamanian policy (which it controls) would suggest, apparently because it fears that it will alienate its political following if it accepts US proposals without prolonged negotiation. The party's leader is President Enrique Jiménez, and its 1948 Presidential candidate is Domingo Diaz Arosemena.

b. The Authentic National Revolutionary Party (*Partido Nacional Revolucionario Autentico — Autenticos — Arnulfistas*).

This is the personal party of Arnulfo Arias, who, when ousted from the Presidency in 1941, carried with him into this new organization the allegedly "authentic"

members of the *Partido Nacional Revolucionario*. Since Arias enjoys great personal popularity, the party is the chief opposition group in present-day Panamanian politics. It has, however, few commitments, either on economic policy or on political organization, and is apparently ready to follow Arias' mood of the moment, which seems to vary with his own conception of what is likely to restore him to the Presidency. The major constant in Arias' political faith is his ardent patriotism, which frequently takes the form of noisy insistence upon the danger that Panama, as a "quasi protectorate" of the US, will fail to safeguard its independence. He has, therefore, been an indefatigable critic of the Panamanian Government's course of action in the defense-sites negotiations, has made a number of pro-Argentine pronouncements, and has not hesitated to identify himself as a "nationalist." A further manifestation of his patrioteering tendency is his open hostility to Panama's British population. There are 100,000 to 125,000 persons in Panama who are either British subjects or descendants of British subjects and Arnulfo Arias has publicly advocated discriminatory legislation against them. He constantly attacks the Jiménez Administration for its alleged weakness, corruption, and "subservience" to the US.

There is evidence that Arias is himself venal, and that a portion of his energy has been channeled into the accumulation of a private fortune. He is unlikely to become pro-USSR on ideological grounds, although a widening rift between the USSR and the US might tempt him, for reasons of expediency, to favor a foreign policy that would embarrass US efforts on behalf of hemisphere defense. He would not, therefore, from the US point of view, be a desirable successor for Jiménez. It should be noted that he has not yet made formal announcement of his candidacy, but is expected to do so about 1 December 1947.

c. *The National Democratic Front.*

This party, recently formed by a group of prominent politicians, can be expected to emerge as one of Panama's leading political parties. It includes among its directorship Ernesto de la Guardia (who has brought to the Front the support of the Liberal Reform faction of President Jiménez' original coalition government) and Har-modio Arias, Panama's most influential behind-the-scenes politician.

Although the Front has not yet officially announced its candidate or platform, it is expected to nominate J. J. Vallarino, Panama's Ambassador to the United States, as its candidate for President in the 1948 elections.

The Front, because of the leaders who comprise its governing council, can be expected, during the forthcoming campaign, to attack both Arnulfo Arias and Domingo Diaz vigorously. Its views on issues, rather than personalities, do not yet appear to have been formulated.

d. *The National Revolutionary Party (Partido Nacional Revolucionario — PNR).*

The National Revolutionary Party differs little, as regards platform, from Diaz' party, although there is some reason to expect it to be the more successful of the two in appealing for the support of the shopkeeping and trading middle classes of Panama City and Colón — if for no other reason than because of its more critical

attitude toward government expenditures on public works. Unlike some of Panama's other parties, it is a genuine opposition party in the sense that it regards itself as a genuine competitor of the PLU for power in the state. Once in power it would probably continue the public works program, the manifestations of hostility to foreigners, and the dickerings on the defense-sites problem, along with many other characteristic policies of the Jiménez Administration. It might even launch a broader program of social reform than that now under way. The party has nominated José Fabrega as its candidate for 1948.

e. *The Popular Union Party (Partido Union Popular).*

This is smaller than Panama's other parties although it claims the 7,500 adherents the law requires for participation in Presidential elections. It addresses itself to simple folk in the provinces by denouncing the "evil plutocracy" in the capital where "Arnulfo Arias, the Nazi, public enemy No. 1 of the Government," affirms PUP's leader, Dr. Sergio Gonzalez Ruiz, "walks arm in arm with Don Enrique Jiménez, the Liberal President, while they defend the interests of democracy." Since, however, the grip of Panama City and Colón upon the country's politics seems secure, these appeals are not likely to be heeded within the predictable future.

f. *The Socialist Party (Partido Socialista).*

Led by a political adventurer named Demetrio Porras, the Socialist Party makes its influence felt through the so-called "League of Tenants and Wage Earners." Most middle and lower-class Panamanians are tenants, and the rents they pay for the miserable dwellings they occupy are, by any standard, high. Porras has recognized and exploited the resultant widespread popular resentment by inciting the tenants to civil disobedience. In this way he has won a popularity that makes him a factor to be reckoned with in Panamanian politics. At the same time, as a pleader for tenants in rent cases, he has won a considerable reputation as a lawyer. There is some evidence that he has, on occasion, accepted financial support from Moscow, but there is reason to believe that he is swayed primarily by considerations of local political advantage. As Panamanian Ambassador to London he has been to all intents and purposes a political exile, and has therefore been unable to continue his campaign against the landlords. His party has consequently lost strength, so that it now holds only two seats in the National Assembly. However, with Porras now back in Panama and a probable candidate for President on the Socialist Party ticket, the movement he leads can fairly be expected to begin to attract sizable numbers of new followers.

g. *The People's Party (Partido del Pueblo).*

With only 375 to 400 active members, the People's Party is technically not a party at all. As the successor to the Panamanian Communist Party, which went out of existence in 1943, it maintains close relations with Lombardo Toledano's CTAL in Mexico, with *Vanguardia Popular* in Costa Rica, with the Democratic Socialist Party in Colombia, and with other Communist and Communist-front organizations in Latin America. The leadership of Local 713 of UPWA-CIO in the Canal Zone is known to look upon the party with, to say the least, a friendly attitude. Celso Solano and

Cristóbal L. Segundo, as the party's spokesmen, have endeavored to win support for Panamanian recognition of the USSR and to rally opinion against the US with regard to the defense-sites problem. For instance, they have organized a so-called Provisional Committee for the Return of the Bases which, like front organizations elsewhere, seeks wide non-Communist support for a purpose which, while clearly Communist, is not put forward as such. On domestic questions the party's present practice is to give what it calls "conditional support" to all "progressive" groups and measures, and it has thrown its weight vigorously behind President Jiménez' public works program. At the same time, however, it makes propaganda — in the language of economic determinism and the class struggle — for whatever themes happen to be fashionable in Moscow, and, in its present phase this of course commits it to working-class "unity" against racial discrimination in the Canal Zone, against Wall Street, and against the Panamanian "traitors" who allegedly serve the interests of the US and the United Fruit Company. The party is at present engaged in a struggle for control of the Federation of Students and the Popular Youth Front.

4. CURRENT ISSUES.

Because of Panama's relatively high level of post-war prosperity, the issues that divide its political parties are rarely of an economic character. There is some current discussion of high prices and thus of inflation, but no particular party has taken a definite stand for or against any specific policy in this area, although the "outs", hoping to improve their prospects at the polls, blame the government and at least imply that if they were in power, prices would come down. They also point to the venality and corruption of the government as a "cause" of the general economic imbalance. However, in the absence of a definite scandal, this is not likely to become a vital issue in the next campaign.

The existence of Communists both in Panama and in the Canal Zone is well known, but the Panamanians have shown little concern about their activities and do not regard the USSR itself as a threat to their security. Communism, in short, remains a minor political issue.

Most current political debate turns, in point of fact, upon purely local issues and, even more than in most other Latin American countries, is characterized by the personalism that pervades all Panamanian politics. The defense-sites problem, because it concerns foreign relations and does not lend itself to statement in terms of personalities, is an exception. The other two big issues of the moment, however, are the personality of Arnulfo Arias and the alleged excess of the country's alien residents, mostly negroes of British West Indian origin.

a. *The Defense-Sites Issue.**

In 1942 the US and Panamanian Governments entered into an executive agreement under which the US leased certain sites in Panama for use as bases in the defense of the Canal and the Republic itself. The agreement gave the US jurisdiction

* Subsequent to the writing of this report Panama's National Assembly rejected the proposed US-Panama defense-sites agreement, and the US has begun to withdraw from the bases.

over the sites, and no major issues appear to have arisen concerning the exercise of that jurisdiction. The debate over the defense-sites concerns, rather, the stipulation in the agreement that the US would evacuate the sites "one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect."

The Panamanian Government holds that the instruments signed at the end of hostilities by the German and Allied military commanders in Europe, together with the instrument of unconditional surrender signed aboard the USS *Missouri* in Tokyo Bay on 1 September 1945, should be regarded as a "definitive covenant of peace" ending the armed conflict. The US view is that the definitive covenant of peace is still in process of negotiation. Many Panamanians support the Panamanian Government's view; but others either support the US view or insist that, since continued US jurisdiction over the bases is in the interest of both countries, what the treaty says is a matter of small importance as compared to the need for prompt negotiation of a new agreement authorizing the US to use the bases. Every phase of the negotiations concerning the terms of the proposed agreement has been followed in great detail by the Panamanian press and radio and has given rise to a spate of rumors, charges, and counter-charges regarding the motives, competence, and good faith of the Panamanian negotiations.

b. Arnulfo Arias.

Arnulfo Arias is both the most popular and the most hated and feared of Panama's political leaders. Because he is known to be a tireless plotter who is determined to be President again, and because he frequently espouses extreme nationalist measures which, if adopted, would involve open discrimination against large elements of Panama's population, his every public move precipitates vitriolic political debate. Even the details of his personal life are grist for Panama's political mill, and rank equally with the Government's public works program as a topic for discussion.

c. Racial Tension.

Since work was first begun on the Panama Canal, large numbers of British West Indian negroes have taken up residence in the Republic. They and their descendants today account for approximately 20 percent of the population (some estimates place the total number at 125,000). Although many of them are full participants in the social and cultural life of the country, the extreme nationalists among the rest of the population have taken as one of their major propaganda themes the negroes' alleged threat to the "purity of the race." Since most Panamanians are themselves of mixed white and Indian origin, "racial purity" is not, in Panamanian conditions, easy to define; and the line the nationalists propose to draw by means of discriminatory legislation would be linguistic rather than racial. It would not, that is to say, exclude non-whites as such, but only non-whites of non-Spanish-speaking origin.

Although no Panamanian politician ever states this objective baldly (so that discussion of the issue proceeds largely by indirection), the race question is a continu-

ous and weighty factor in Panamanian politics. The nationalists have, moreover, already achieved a limited measure of success in their campaign for discrimination. The country's present citizenship laws, for instance, are worded in such fashion as to place disabilities upon the English-speaking negroes, and many informed observers believe that the negroes' demonstrated susceptibility to the activities of both West Indian agitators (many of whom are Communists) and of US labor organizers reflects their dissatisfaction with the increasingly disadvantageous position they occupy in Panamanian society and economy. The vast majority of the 7,000 members of the widely discussed CIO Public Workers local union are not Panamanians but persons of British West Indian origin. Thus, insofar as the British West Indian negroes come to be regarded as adherents of foreign ideologies, racial tension is likely to increase, the more since many Panamanian *mestizos* in the interior believe the negroes threaten their own position in the labor market. Even today few Panamanians would admit openly and publicly that they exercise and approve of discrimination against any racial or linguistic group. Most Panamanians, that is, think of themselves as champions of nondiscrimination, and this ideological factor may operate to prevent further deterioration of the negroes' economic and social status; so also may the fact that the political parties have lately begun to use the negroes as weapons in the struggle for power. In the months since May, for instance, numerous negroes have received political party assistance with their applications for citizenship papers, presumably in return for their promise to vote in a certain manner in the 1948 elections. If this development leads to the enfranchisement of a considerable percentage of the British West Indian negroes, their vote will become an important factor in Panama's political equilibrium, and they would probably be able, as time passed, to reverse the present trend toward discrimination, and demand the equal opportunity to which, under the prevailing political ideology in Panama, they are theoretically entitled.

5. OTHER INFLUENTIAL GROUPS.

The following four ostensibly nonpolitical groups are so influential as to demand attention in any survey of Panamanian political life.

a. *The Federación Sindical de Trabajadores de Panamá (FSTP).*

This is the dominant labor organization of the Republic. It includes eighteen independent unions which claim a total of 20,000 members. The majority of the important executives of the Syndicate are Communist Party members and maintain intimate ties with labor leaders in Mexico, Cuba, and Colombia. The Syndicate's platform is also avowedly Communist in orientation: it stresses the class struggle, capitalizes politically on the race problem and on the tenant dissatisfaction with the housing situation. It has been openly and aggressively hostile to the US position on the defense-sites problem, and has consistently exploited nationalist and patriotic sentiment for the purpose of rallying opposition to US leadership in the hemisphere. The Syndicate has not, however, yet become an effective political force on issues that do not bear directly on labor problems as such. Nor is there any reason to expect its influence to increase noticeably in the foreseeable future.

b. *CIO Local 713 of the United Public Workers of America.*

Now a year old, CIO-UPWA 713 has approximately 7,000 regular dues-paying members, most of them unskilled negro laborers employed in the Canal Zone. The union, which claims about 17,000 members, demands for them a minimum hourly wage of forty cents, a generous retirement program, and, most insistently, discontinuance of alleged discrimination as regards job rights and opportunities. Available evidence suggests that most of the union's members are not themselves Communists; but the three organizers sent by UPWA from the US are known to be persons closely linked with the Communist movement, and data point definitely to Communist influence in the management of the union's affairs. The union has sought to disassociate itself from labor organizations and labor problems within the Republic of Panama, but because so large a percentage of its members live there, it is drawn willy-nilly, into Panamanian domestic politics — the more unavoidably since working conditions and job regulations in the Zone are frequently the subject of negotiations between the Panamanian Government and the Canal Zone authorities.

Since a high percentage of the union's total membership is drawn from West Indian negroes rather than typical Panamanian *mestizos* or whites, it is not surprising — its Communist connections entirely to one side — that it is alert and active with respect to problems involving alleged racial discrimination; and since it is alert and active on this point, it is not surprising either that it continues to attract negro members. The union's political importance, both present and future, lies precisely in the fact that, prior to its appearance, the negroes had no effective representation in their dealings with the Zone authorities (neither the Panamanian Government nor the British Legation had at any time interested itself in their welfare).

c. *Frente Patriotico de la Juventud (Patriotic Youth Front).*

One of the country's two influential youth organizations, the Front has some 1,500 members. It was founded by Arnulfo Arias who, during his time in Germany and Italy, had observed the youth movements in those countries, and had concluded that a similar movement could play an important role in his own long-term plans for Panama. Arias has, moreover, succeeded in keeping control of the movement, so that he is in a position to exploit its considerable nuisance value for political purposes. Some recent reports state, however, that the Communists have now penetrated the organization, and are bent upon capturing it. The young men who have been attracted to its membership (Arias' flamboyant personality appears to be the major attraction) live mainly in Panama City and Colón and seem to have no common tie save their dislike of the US and of the present Panamanian Government. The movement's public behavior suggests that its members are characterized by a high degree of irresponsibility.

d. *Federación de Estudiantes de Panamá.*

This influential youth organization dates from 1942, and now has a membership of approximately 2,000. Along with other Latin American student organizations, it is totally unlike the student organizations in the English-speaking world. Its leaders

are full-time professional agitators, not students but men from 25 to 35 years of age; and the members, who are in their teens, correspond, from the standpoint of training and maturity, to US high school rather than US university students. Their major characteristic is their excitability, which can on brief notice be translated into demonstrations and riots in the streets; and it is this characteristic that makes them valuable to their founders. Within the *Federación*, as within the *Frente*, a struggle for control is now in progress between Arnulfo Arias and the Communists, both of whom it serves by its anti-US activity on such issues as the defense-sites problem.

6. STABILITY OF THE PRESENT ADMINISTRATION.

In June 1940, following a turbulent campaign, Arnulfo Arias was elected President. His pro-Fascist orientation became evident soon after his inauguration, and he was speedily ousted — in part because of a growing conviction that he was taking steps that might, in view of the difficult international situation, oblige the US, for reasons of self-defense, to adopt measures against his Government. After his departure for Cuba on 7 October 1941, Adolfo de la Guardia, his own Minister of the Interior, was named as his successor.

In the ensuing months the new government rescinded the decrees by which Arias had attempted to frustrate the US program of aid to the democracies, and put in their place decrees predicated upon the idea of cooperation with US policy. On 4 January 1943, the Panama National Assembly extended De la Guardia's term of office by two years.

By December 1944, however, the National Assembly was showing signs of independence vis-a-vis the Executive. De la Guardia suspended the Constitution, dissolved the Assembly, and called for a 6 May 1945 election for members of a new constitutional convention. This election was held as scheduled; and the present administration, under Enrique Jiménez as provisional President, owes its mandate (15 June 1945) to the resultant Constituent Assembly rather than to normal electoral processes. The first Presidential elections under the constitution drawn up in the early months of the provisional administration are scheduled for May 1948.

Arnulfo Arias returned to Panama in 1945, and quickly succeeded in resuscitating his Authentic National Revolutionary Party. Meanwhile a shift occurred in the United Liberal coalition that placed President Jiménez in office. In this sense the present administration is not stable.

Jiménez, not himself a candidate for re-election, has pledged that the 1948 elections will be impartial. His party has nominated an aged, political wheel horse named Domingo Díaz Arosemena, but the "democratic" elements Jiménez included in his original coalition have already broken away in anticipation of the 1948 elections, and are about to nominate a candidate of their own. This suggests that many persons connected with the Jiménez administration will appear as active participants in, perhaps even as candidates of, new splinter parties. Díaz is, in this background, unlikely to poll a majority vote.

Arnulfo Arias' recent line is that he is opposed to political intrigue and fully subscribes to the electoral process. There is, however, no reason to believe that such statements reflect his real views; and his mere presence in Panama keeps alive the possibility, however remote at the moment, of a sudden coup that would, by giving him control of external policy, revive many of the vexed problems he posed for the US through the months preceding his ouster. There are two principal obstacles in the path of such a coup: (1) Chief of Police José A. Remón, whose position in the Panamanian political framework will be discussed below (in the chapter on the Police Force); and (2) the not inconsiderable personal influence of Arnulfo's elder brother, Harmodio Arias.

Reports now current in Panama state that Harmodio Arias, before throwing his support to the National Democratic Front in the coming elections, promised his support to Arnulfo in the 1952 elections. Harmodio is reported to have urged his brother to run for President in 1948 so as to keep his name before the public, preparing himself to accept defeat with good grace. Harmodio has also reportedly urged his brother to assume certain pro-US attitudes in the hope that by 1952 the US will forget his one-time Nazi leanings and not oppose his re-election.

Arias' popularity would probably assure him a majority in the 1948 elections if he were to have the support of his brother Harmodio. Without his brother's support, he is unlikely to win. Diaz, however, has the handicap of age and the further handicap of colorlessness, and as spokesman for the party that must explain the recent defense-sites negotiations to a suspicious, increasingly nationalistic electorate, his campaign must proceed uphill. Fabrega, the candidate of the Revolutionary Party, will appeal for votes in terms indistinguishable from Diaz', save that he will be free to criticize (and will not be called upon to justify) the involutions of Panamanian policy on the defense-sites issue. The candidate of the National Democratic Front will probably have the support of Panama's leading newspapers and radio stations. He will also have the added advantage of being free to attack the defense-sites negotiations of Jiménez and, at the same time, claim credit for the popular domestic policies of the Administration.

Insofar as the choice is narrowed to Diaz, Fabrega, and Vallarino (the probable candidate of the National Democratic Front), the US will have no paramount interest at stake in the election. If, on the other hand, Arias, as is expected, offers himself as a candidate, the elections would assume great importance from the US point of view. As a democratically elected President, able to claim the support of the majority of Panamanians, Arias would be even more dangerous than as a self-appointed dictator. Regardless of any protestations he might make in the course of the campaign, he could, on assuming office, be expected to oppose various US policies and to miss no opportunity to forward (along with his own interests) the interests of groups or individuals opposed to the position of the US' dominant position in the Caribbean.

SECTION II ECONOMIC SITUATION

1. GENESIS OF THE PRESENT ECONOMIC SYSTEM.

The Panamanian economy is based in large part upon the transit of goods and passengers across the Isthmus. This has been true ever since colonial times, when the Isthmus was already being used as a point of transshipment for goods originating on the west coast of South America and destined for Spain. Second in importance to the economic activities associated, directly or indirectly, with the construction, administration, and defense of the Panama Canal and with the transportation of goods and passengers through the Isthmus, are agricultural pursuits. Fifty-two percent of the population is engaged in agriculture. No other activity or complex of activities employs nearly so many people as these two, or makes nearly so large a contribution to the national income.

Although the Constitution of the Republic authorizes detailed regulation of industry, agriculture, and labor, in actual practice there is a minimum of government control. Moreover, the Panamanian Government will probably maintain its policy of minimum interference in private enterprise (although it will continue to encourage nationalization of domestic trade). The present *laissez faire* policy enjoys the active support of the middle classes in the terminal cities of Colón and Panama, and these are undoubtedly the most powerful and vocal element in the Republic's life.

2. DESCRIPTION OF THE PRESENT ECONOMIC SITUATION.

If strict government controls were imposed upon its economy, as well as broad agricultural reforms, Panama could feed itself without outside help. In the absence of such controls it will continue to import those foods that cannot be produced domestically without adverse effects upon the Republic's standard of living.

Rice is Panama's basic food. Domestic production, which is encouraged by the government, totaled 1,147,094 quintals in 1945, a quantity insufficient to meet the domestic demand (49,024 quintals were imported from neighboring countries). In 1945 the country imported 4.3 million dollars worth of foodstuffs (principally processed foods and cattle from the US). This accounted for 18.4 percent of the country's total imports.

The inadequacy of the country's agricultural labor supply and the retarded development of its transportation facilities are the main deterrents to agricultural expansion in Panama.

Panama's principal exports are bananas, cacao, abaca, rubber, and coconuts. Most of these exports go to the US. In 1945 there were 116 million commercial banana plants in the Republic. These were controlled chiefly by two US companies, the one with large plantations of its own in Chiriqui and Bocas del Toro, the other the principal

purchaser of bananas from private growers in the Provinces of Colón, Panama, and the Canal Zone.

Cacao is produced primarily for export although a small percentage is processed locally. For the period 1942-45, exports totaled 6.8 thousand metric tons.

Panama's natural resources are virtually undeveloped and to a large extent unknown. The Province of Darién is reputedly rich in gold, silver, and copper deposits, and from time to time private companies have been organized to explore and develop them. Limited capitalization, inadequate transportation facilities, disease, and inability to find profitable ore deposits caused all these companies to fail. In 1939 gold was mined in the amount of \$105,000, along with well-nigh negligible quantities of silver, copper, and manganese.

Panama has extensive forest resources, which, if developed, would enable the country to market more than fifty species of commercially valuable cabinet, building, and dye woods. Transport difficulties have been a determining factor to date in preventing their successful exploitation.

The waters adjacent to the Republic abound in edible fish, but here also development up to the present time has been on a small scale. The country's pearl-fishing industry and its mother-of-pearl industry both make a small contribution to the national income.

Neither crude oil nor asphalt is produced in Panama. The Sinclair Oil Company is, however, now engaged (under a government concession) in exploring for possible oil resources. The country has no petroleum refineries and chooses rather to depend on the Canal Zone distribution facilities for its supplies of petroleum products.

Panama's industrial potential is limited by its small population, its scant purchasing power, its limited natural resources, its continuing capital famine, and its inadequate and relatively expensive transportation facilities. In 1943 less than 2 percent of the population was engaged in industry, and no significant new industrial development took place during the war.

Industrial development has proceeded slowly in Panama, and up to the present has been largely confined to the production of light consumers' goods in small factories or shops. Thus manufacturing industries play a minor role in the national economy. The largest of the enterprises are those that produce electric power, alcoholic beverages, soft drinks, foodstuffs, and, recently, soap. Other significant manufactures are clothing, ceramic products, wood products, leather and leather products, chemicals, and cement. Practically all manufacturing takes place in Panama City, Colón, and David, with the greatest concentration in Panama City.

With the exception of electric power, alcoholic beverages, sugar, and possibly soap, Panama is unable to satisfy its domestic industrial needs. It has no significant industries that could be converted to important wartime uses. Because of its limited industrial productivity, it is not an important market for foreign raw materials. It will remain for some time at least an important source of bananas, and also, to a limited extent, coconuts and abaca fiber.

The per capita national income for Panama was estimated in 1945 at \$190.00. This compares favorably with that of Panama's neighbors, but it should be noticed that

37 percent of the income on which this figure is based apparently originated in the Canal Zone. In 1944 the corresponding figures were \$202.00 and 40 percent, respectively.

The national budget over the years shows no significant imbalance. In 1944, receipts totaled \$27,198,000 and expenditures \$26,300,000. In 1945 there was a deficit of \$4,631,000. The three main sources of government revenue are import taxes, internal revenue, and the lottery. In 1944 the latter accounted for approximately 25 percent of the total revenue. The main item of expenditure is public works.

The total public debt of Panama as of 31 December 1946 was \$19,869,468.78, of which \$15,826,005.10 is external debt held mostly in the US. Interest rates on the foreign debt have been considerably reduced in recent years.

The value of the *balboa*, Panama's currency unit, is pegged to the dollar at the rate of one *balboa* to one dollar.

Panama's imports and exports for the years 1940-1946 are as follows:

YEAR	IMPORTS	EXPORTS
1940	\$23,936,657	\$4,054,866
1941	32,917,392	4,283,145
1942	37,928,071	2,229,028
1943	40,267,592	1,965,995
1944 ¹	38,100,000	2,927,229
1945 ²	45,648,100	4,507,842
1946 ³	57,057,498	7,792,177
1947 ⁴	17,581,342	2,290,814

¹ Bananas accounted for \$922,099—31%—of total.

² Bananas accounted for \$2,047,759—45%—of total.

³ Bananas accounted for \$4,154,432—61%—of total.

⁴ First quarter approximate.

In 1942 the US supplied Panama with 75.7 percent of her total imports and took 90 percent of her exports; and these percentages have remained fairly constant through subsequent years.

These international trade figures do not, however, represent the true picture of Panama's international balance of payments since exports are only a minor source of dollars. Dollars are derived chiefly from the operation of the US Government in the Canal Zone. Total Panamanian receipts from the Canal Zone during the fiscal year 1945 amounted to \$69,266,000, as compared to out-payments of only \$17,383,000. The largest single receipt item is the wages paid by the US Government to Panama residents (during the US Government's fiscal year ended 30 June 1946 there were 35,000 Panama residents on the US Government pay roll who received \$31,970,000 in wages). Additional sources of dollars are sales of goods and services to the US Government and to US citizens (residents and transients) in the Canal Zone. Thus, despite the strikingly unfavorable merchandise trade balance, Panama does not suffer a dollar shortage.

That Panama's ability to satisfy its heavy import requirements and, consequently, its prosperity, is mainly dependent on factors beyond its control is, however, apparent.

3. **ECONOMIC STABILITY.**

At the present time the Panamanian economy is relatively stable. Although US expenditures in both the Zone and the Republic have declined appreciably since the cessation of hostilities, the resultant slack has to some extent been absorbed by the Panamanian Government's own public works program, much of which had been adjourned for the duration of the war. Furthermore, the present administration has made an attack upon the nation's continuing economic problems in a promising manner, that is, by planning projects for Panama's economic and agricultural development. There is reason to believe, too, that the policies embodied in the 1946 Constitution have tended to encourage both US and Panamanian businessmen to expand their commercial and industrial commitments.

SECTION III FOREIGN AFFAIRS

Panama's foreign policy is based on a compromise between its wish to retain its position as a quasi protectorate of the US and its desire to assert for itself unlimited national sovereignty.

Under the Treaty of 1903, the US guaranteed Panama's independence: Article 136 of the original Panama Constitution conceded to the US a legal right to "intervene in any part of the Republic of Panama to re-establish peace and constitute order in the event of there being a disturbance." Inasmuch as none of the other American Republics has granted any such right to the US, this clause in Panama's Constitution clearly created a special situation, which has lent itself to description by anti-US elements in terms of tutelage and about which even pro-US Panamanians have—without for a moment denying the urgency of the US interest on the Isthmus—shown increasing sensitiveness in recent years. This contrasts sharply (the constitutional provision entirely apart) with Panamanian attitudes through the earlier years of the Republic, when the special position of the US tended to be taken for granted. Thus when, in 1909, the US asserted that it was entitled to prevent Panama from getting into a controversy with another government that might render imperative US intervention on Panama's behalf, Panama offered no objection; and on occasion the Panamanian Government has itself invoked the constitutional provision cited in order to permit US intervention in its domestic affairs (on one such occasion the President of Panama orally requested intervention). Moreover, US intervention, in the absence of such authorizations or requests, has been accepted without any question of, for example, an appeal to other powers.

A shift in attitude became perceptible around 1933; and, increasingly through subsequent years, Panama has taken steps that appear to have been motivated in large part by a desire to draw attention—inside Panama, in the US, and over Latin America as a whole—to its equality of status with the US. As an active member of the Pan American Union and the United Nations, as a power represented by diplomatic and consular establishments throughout the world, and as an ardent partner in the Good Neighbor Policy and hemisphere cooperation, it today, at first glance, appears to possess all the external paraphernalia of full sovereignty, and might on this showing fairly be expected to adjourn its fears concerning the possibility that it will be considered a US protectorate. For the Panamanians, however, the nub of the question is, on the one hand, the US' supposed right of intervention and, on the other hand, their own complete unwillingness (US attitude entirely to one side) to sever the bonds of interest which (as they themselves know) make it impossible for the US to remain indifferent to events within Panama. The major objective of Panamanian foreign policy is, in this background, that of retaining the political and economic benefits that accrue from the fact of US reliance upon the Panama Canal for its defense and its commerce, while weaken-

ing and wearing down the "rights" which the US has traditionally regarded as necessary concomitants of that reliance.

To some extent the Panamanians have made progress toward the achievement of this objective, as may be seen from the following facts: (1) the US has intervened in neither of Panama's two most recent revolutions; (2) no Panamanian President would today venture to call upon the US to intervene in any internal Panamanian crisis; (3) the 1936 US-Panamanian Treaty withheld intervenient rights from the US that it had enjoyed under the original 1903 Treaty, although it established the principle that all problems affecting the security of the Republic and the Canal in case of aggression and international conflagration would be handled on a consultative basis; and (4) the most recent Constitution (1946) omits the article under which the US had enjoyed special intervenient prerogatives. None of these facts should, however, be taken as implying that Panama is likely to press forward with this line of policy beyond the point at which the US might begin to withdraw its economic support and its military protection from the Canal, or that these superficial developments have substantially modified the realities of US-Panamanian relations. So long as nearly half of Panama's national income is derived from the sale of goods and services (domestically and via export channels) to Americans, Panama can be counted upon to stop short of alienating either public or official opinion in the US.

The Panamanians are well aware that, for instance, a fortnight's embargo on commercial relations between the Zone and the Republic would plunge them into an economic crisis which would speedily bring down upon the existing Government's head the vengeance of its own people.

All the major considerations affecting Panamanian foreign policy today arise out of the conflict set forth above. The Panamanian Government concedes—though with increasing reluctance—that the presence of the Panama Canal within its territory gives the US a paramount interest there; and at the margin it never actually denies that, corollary to that interest, the US has a continuing need for sites in Panamanian territory on terms roughly parallel to those of the 1942 defense-sites agreement. By the 1942 agreement, the US gained "complete use of such areas and exclusive jurisdiction in all respects over the civil and military personnel of the US situated therein, and their families," and was, moreover, "empowered to exclude such persons as it sees fit without regard to nationality." But, for reasons of domestic politics, the signing of a new agreement in which such terms will be set down in black and white is a step which neither the present Government (faced as it is with an election in 1948) nor any alternative Government can be eager to take. Too many influential Panamanians not only see in it a reaffirmation of the Republic's subservient position vis-a-vis the US, but also feel that it goes further than the original Hay-Bunau Varilla Treaty of 1903 on the point of extraterritorial privileges.

Only the fact that the 1942 agreement was negotiated in time of war prevented a sharp issue from arising at that time; and the eagerness of the Panamanians, on patently faulty textual grounds, to terminate the agreement as soon as hostilities ceased was a sure indication that pressure was strong inside Panama against any and all

documentary avowals of the US special position. That the pressure has not diminished since is indicated by (1) the fact that President Jiménez, when the current defense-sites negotiations began, tried to associate both Arnulfo Arias (as leader of the Authentic National Revolutionary Party) and Harmodio Arias with him in recognizing the necessity of a new agreement along roughly the lines desired by the US, and (2) the fact that the Arias brothers refused the gambit. (Had they agreed Jiménez could probably have proceeded with the agreement, without regard to its domestic political effects.) The results of the conference were never announced, but Harmodio Arias believes that peace-time jurisdiction over the defense sites should vest exclusively in Panama, and Arnulfo Arias is personally hostile to any sort of US control over the defense sites—although for domestic political reasons or for motives of personal ambition he may temporarily adopt pro-US attitudes.

The original 1903 Treaty between the US and Panama and the 1936 Treaty between the two countries are the only special political treaties which Panama has at the present time.

The Panamanian Government, pointing to US-USSR economic and political rivalry, has adopted a hostile attitude toward the Soviet Union. It does not maintain diplomatic relations with the Soviet Union; it can be counted on to favor the US against the Soviet Union not only in any future war situation but also, and even more certainly, in any short-of-war clash or conflict of interest; and there is no likelihood that the Panamanian Communist Party and its several "front" organizations will be sufficiently strong within the foreseeable future to modify the Government's attitude on these points, even though the present ability of the Communists to exploit Panama's feeling of nationalism affords it an influence beyond that which its numbers deserve. There are, moreover, reasons for believing that the pro-US, anti-USSR orientation of Panamanian foreign policy has deep roots in the minds and hearts of the Panamanian people, quite apart from the motives of *real-politik*. The Panamanians have prospered under their system of free enterprise; they are deeply committed to its Spanish, thus Christian, cultural traditions; and their demonstrated allegiance is to hemisphere solidarity and inter-American unity rather than to a fanciful world-wide union of the working classes. The dominant political group in the country, moreover, the middle class, has proved highly resistant to the appeal of Communist propaganda and Communist theory.

Panama's present foreign policy appears to involve four themes:

- (a) Denial—at least upon the verbal or formal level—of any inference that Panama is a quasi protectorate of the US, with, however, no evident intention of modifying the realities of its special position.
- (b) Friendship and cooperation with the US.
- (c) Promotion of the concept of hemisphere solidarity.
- (d) Adherence to the United Nations.

While it is conceivable that at one time or another an ill-advised demagog might seek to modify what has been termed above the realities of US-Panamanian relations, it remains true that (a) no leader known to be committed to such a course is likely to

be elevated to the Presidency in Panama, and (b) any leader who suddenly adopted such a policy after becoming President would promptly be forced out of office. In short, Panama's fate is inextricably linked to that of the US, and in such fashion that Panama's nationalist aspirations must, now and in the future, be subordinated to its role as the host of the Panama Canal.

On the other hand, the Panamanians are keenly aware that the US, committed as it is to hemisphere solidarity on the basis of consultation among twenty-one equal and sovereign republics, will never press its special interests in Panama to the point of impairing Panama's status as one of those republics. Believing this, the Panamanians see the strength of their position as lying in the fact that, while enjoying the economic and political benefits of a quasi protectorate, they can demand the rights and privileges of an equal sister nation. This belief now pervades all US-Panamanian negotiations on Panama Canal defense, and accounts in large part for the Panamanians' conviction that they can drive a hard bargain in such negotiations.

The United Nations has little practical meaning for Panama other than as a forum before which to ventilate Panamanian protestations of equality and independence. Panama is certain to remain an active participant in the UN; but it will continue to rely for its security upon the armed forces of the US.

SECTION IV MILITARY SITUATION

1. GENESIS OF PRESENT MILITARY POLICIES.

Panama has neither an army, a navy, nor an air force. The US maintains extensive military, naval, and air establishments not only in the Canal Zone but in the Republic itself, and has a treaty obligation to defend Panama. The Panamanians, well aware of the Canal's strategic importance for the US, know that even in the absence of such treaty obligations, the US would move rapidly to defend them should their security be endangered. They have, therefore, always felt that armed forces for the defense of their national patrimony would be an unnecessary expense, and for this reason they have not, since the country's establishment, provided for a national defense force.

Since the outbreak of World War II, however, there has been a growing body of opinion (particularly among officers in the National Police who have had military training in various Latin American military academies or in the US) in favor of reversing the no-armed-forces policy. Plans in this sense now reportedly exist on paper, and provision has actually been made for the conversion of the Panama National Police into a Panama Army during any national emergency. No such plans are likely to be adopted in the foreseeable future. Influential Panamanian politicians will be reluctant to recommend expenditures for an integrated military establishment, and will, as civilians, probably continue to think of the military as a potential threat to their careers. The fact that the present Panamanian Government has taken no steps toward reorganizing and improving the Panama National Police in its present form suggests a wish to keep it weak. During the bilateral staff conversations with the US in 1945, the Panamanians showed considerable interest in acquiring a US military mission, but no formal request has been made.

The commander of the Panama National Police Force, provided he has the support and loyalty of his men, is in a position to wink at, provoke, or even initiate political disturbances, and could probably overthrow any Panamanian Government. The mission of the Police Force, according to Panamanian law, is dual. It is charged with (1) the protection of the State and the maintenance of internal order, and (2) the functions usually assigned to police forces in democratic countries: namely, protection of persons and property; prevention of crime and infractions of the law; and the capture and prosecution of criminals. The present active strength of the Police Force is approximately 2,246 (159 officers, 2,051 enlisted men, and 36 employees who do not wear the uniform).

The President of the Republic is the Commander in Chief, and exercises his powers through the Ministry of Interior and Justice. General headquarters is in Panama City. The force is divided into a headquarters section, a central section consisting primarily of a mounted or cavalry squadron designed to be used in connection with crowd dispersions, parades, riot duty, etc.; special detachments for five geographical zones; an

immigration section; a paymaster section; a prison section; a traffic section; a Presidential guard whose loyalty is crucially important during times of political unrest and possible revolutionary activities because it polices the Presidential palace; and a record section. The National Police is fairly well equipped with small arms, and the Central Police Station in Panama City is a modern functional building. Since the cavalry and traffic units of the police occupy adjoining annexes, the nerve center of the National Police in the event of revolutionary activity would be this one building. Any revolutionary group unsupported by the Police Force would attempt as a matter of course to stop movement in and out of this building as a first step toward overthrow of the established government.

As an armed force, the value of the Panama National Police is practically nil: it is inadequately trained, badly organized, and poorly equipped. As a police force, it is, when judged by US standards, mediocre. The appropriate standards are, however, Latin American, and from that point of view the nub of the matter is that because of the control it exercises over all arms and weapons, it is able to maintain law and order in normal conditions. Its resources for handling crowds and mob violence are, however, extremely limited. Although the commissioned officers of the National Police appear to be fairly able men, dishonest practices are traditional in the organization. Many of them, moreover, have outside business interests, not infrequently in prostitution and gambling.

There is no evidence of Communist infiltration in the Panama National Police.

Colonel José A. Remón, who is regarded as pro-American, is the Commandant and Director of all Panama National Police activities. His loyalty to the present Jiménez Administration is unquestioned, the more since he is a bitter personal enemy of Arnulfo Arias, whose revolutionary activities he has dealt with officially on many occasions in the past. He may be counted upon to suppress any future revolutionary activities, whether by Arias or by subversive leftist forces. Any future constitutional President of Panama except Arnulfo Arias (who would probably remove him from office) could count upon his loyalty. The Deputy Commandant of the National Police is Lt. Col. Francisco Aued Hurane. Aued's father was a Syrian and his mother of German extraction. His private commercial connections are notorious. He is disliked by President Jiménez and distrusted by Colonel Remón. In case of large-scale political disturbances Aued's sympathies would probably not coincide with those of his chief, and, in the improbable event of Remón's absentsing himself from the Republic of Panama, Aued, in active charge of the Police, would bear watching by the Government. The Military Aide to the President of Panama is Lt. Col. Manuel de J. Quijano, Jr. He owes his position to the fact that he is the President's son-in-law, and will probably not be continued in office by the next President.

Panama also has a Secret Police, which, like the National Police, has a dual function. Its mission is (1) the prosecution and investigation of violations of law (apprehending felons and their accomplices, turning them over to the appropriate authorities, and producing the necessary evidence to prove their guilt), and (2) prevention of activities directed against national security and the State. The Secret Police is autonomous

vis-a-vis the National Police. The President of Panama is its Supreme Chief, but it is directly responsible to the Ministry of Interior and Justice. It has a total strength of approximately 81 persons, and maintains offices in Panama City, Colón, and David. Since its physical equipment consists of approximately 100 revolvers and 6 automobiles, it cannot be regarded as a potential rival to the National Police (in the event of revolutionary disturbances, that is to say, it could not notably affect the outcome by taking sides against the National Police). The relation between the two organizations is not, however, cordial. Some members of the Secret Police have received training from US criminologists, and the organization's recruitment standards, especially with regard to education, are more rigorous than those of the National Police Force. On the other hand, there is considerable evidence of sharp practices on the part of its officers, and of political chicanery in connection with promotions.

One of the tasks of the Secret Police is that of following the activities of possible subversive organizations on the Left, for which purpose it uses part-time paid agents and informers, many of whom are recent graduates of the National Institute and the Inter-American University in Panama City, and some, at least, former members of the Federation of Students of Panama, which is one of the radical groups that local Communists have sought to dominate. The Secret Police has, however, cooperated with G-2 of the US Army with regard to subversive activities. The present chief of Secret Police, Raoul Ramon Acevedo Ramirez, is considered loyal to President Jiménez, and would probably transfer his loyalty to any constitutional successor. At one time he was an employee of Harmodio Arias' newspaper, the *Panama American*, and there is reason to believe (1) that he would be unavailable for any major political purpose unacceptable to his former employer, and (2) that much of the information known to the Secret Police is available to Arias.

In the 1943 and 1944 biennial budget for the Republic of Panama the equivalent of \$4,046,520 was appropriated for the police forces. This represents 11 percent of the total expenditures of the Republic during the same period, and can be regarded as the national defense budget of the Republic.

2. WAR POTENTIAL.

Panama has no organized military reserve. There are approximately 5,000 ex-members of the Police Force who for some purposes can be regarded as trained reserves. These men could presumably be called up by the Republic in case of a war or an emergency, but it is improbable that many of them would be useful from a military point of view. During the last few years there have been three attempts to set up informal para-military organizations which would offer training in the handling of weapons, but none of them was large enough in scope, or lasted long enough to merit attention as relevant to Panama's war potential. It is estimated that approximately 70,000 Panamanians, exclusive of tribal Indians, are physically capable of bearing arms and thus available as untrained reserve.

From the standpoint of natural resources, it is improbable that Panama could maintain its own defense forces even if it decided to make the attempt. Its industries could not, within the foreseeable future, supply the necessary weapons and equip-

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ment; and its budgetary position precludes large-scale acquisitions elsewhere. Nor, given present conditions as regards health and education, are the militarily acceptable conscripts sufficiently numerous to form a strong military establishment comparable to that of other countries Panama's size.

Panama has few competent scientists, and commands neither funds nor facilities for advanced research. Panama is incapable of producing rockets or atomic, electronic, and bacteriological weapons; and its capabilities in this regard are not likely to increase in the predictable future.

The only kind of war which Panama could support financially would be a small-scale struggle with one or another of her weaker neighbors.

SECTION V

STRATEGIC CONSIDERATIONS AFFECTING US SECURITY

Because of the Panama Canal's immense strategic value, Panama and Panamanian foreign policy are of paramount importance to the US. Concretely, US strategic necessities would be endangered by any situation in which (a) Panama might ally itself with a potential enemy of the US, (b) any part of Panama might be occupied by a potential enemy of the US, or (c) Panama might become a base of operations for persons sympathetic to the policies of a potential enemy of the US and/or inimical to the US. Because an unfriendly Panamanian Government might permit such a situation to occur, the foreign policy of the Panamanian Government of the day, and the probable policy of any administration that might replace it, are matters of continuing interest to the US. The crucial problems in this connection are: (a) the (present or prospective) Panamanian Government's attitude toward Panama's special position vis-a-vis the US; (b) its ability to maintain public order; (c) its attitude toward US policies and proposals at international conferences; and (d) its capacity to associate with it, in its support for US leadership in the Caribbean and in Latin America as a whole, a substantial majority of the Panamanian people.

In general, Panama's constitutional democratic system of government and its well defined political and economic ties to the US render improbable any Panamanian political developments unfavorable to US security.

There are, however, three factors at work in the political life of Panama that might conceivably lead to situations sufficiently embarrassing to US interests in Panama to require either close observation by the US or positive US action, or both.

Were Arnulfo Arias again to become President, which although unlikely (in view of the recent decision of his brother to support Ambassador to the US Vallarino), is nevertheless conceivable, many of the vexed problems he posed for the US through the months preceding his 1941 ouster would probably recur. Nothing in his past record suggests that Arias would, as President, sincerely and honestly accept the realities of US strategic necessities in Panama. At the same time, however, it is unlikely that Arias, should he again become President, could continue indefinitely an unrealistic policy toward the US. Opposition forces within the Republic could in this event be counted on, as in 1941, to remove him from office.

The People's Party and the Socialist Party in Panama are either Communist or Communist inspired, and are thus inimical to the strategic interests of the US in the area. At present they do not have sufficient strength at the polls to constitute a real menace to the US position in the Republic. Since, however, it is of continuing interest to the US that Panama exclude from its territory persons sympathetic to a potential enemy of the US and hostile to the international attitudes and policies of the US, a substantial increase in the number of adherents of either the Socialist Party or the People's Party would jeopardize US interests. The presence of sabotage elements within the

radical groups of the Panamanian political scene is discussed in Section VII of this study.

Although the large number of West Indian negroes and negroes of West Indian origin (about 20 percent of the total Panamanian population) does not at present constitute a threat to US strategic interests, the trends as regards the political orientation of this minority group are also of continuing interest to the US. The group includes the majority of Panamanians employed by the US to assist it in the operation of the Canal. Many of them, because they are English speaking, are denied citizenship in Panama; and, as a group, they make no secret of their conviction that they are discriminated against both by the Canal Zone and by the British Crown, which is theoretically responsible for their protection. They contend, in short, that neither the Panamanian Government nor the British Government safeguards their interests, and that this is because they are not Caucasians. Consequently, they are susceptible to the propaganda of any group that appeals to them in terms of racial discrimination. The success of the Communist-dominated CIO-UPWA local union in recruiting members among them might easily stimulate groups openly hostile to US interests in Panama to try to mobilize them for political purposes.

The Panamanian economy is capable neither of contributing to nor of jeopardizing US security. At the present time, Panama's economic system is based on free enterprise, despite the fact that the Constitution expressly rejects the principles of *laissez faire*; and it is unlikely that Panama will, in the foreseeable future, initiate any program of state control over economic activities. There is, in any case, no reason to suppose that such a program would jeopardize US interests. Since Panama does not produce important quantities of any strategic materials required by the US or other nations, its economic position is irrelevant from that standpoint. The economy of Panama is, moreover, so closely linked to that of the US, and its prosperity so dependent upon US activity in the Canal Zone, as to guarantee that Panama will, in the future as in the past, formulate its economic policy with an eye to US reactions. In a word, the dependence of the Panamanian economy on the US is advantageous to US interests since it affords the US a considerable measure of indirect control over economic and Panamanian political trends within the Republic.

The only military aspect of the Republic's life that could in any way contribute to or jeopardize US security is the police force. It is the task of the police force to protect the State, to maintain internal order, and to insure domestic tranquillity. A strong, well disciplined, and completely nonpolitical police force designed to perform these functions in Panama, especially in the areas adjacent to the Canal Zone, would be a useful adjunct to US security to the extent that it was able to keep under observation and contain any elements within the Panamanian population regarded as hostile to US interests. Since, however, a completely nonpolitical and efficient police force is an unlikely achievement within the predictable future, no genuine contribution to US security should be counted upon from this quarter.

SECTION VI

PRESENCE OF SABOTAGE ELEMENTS IN PANAMA

At the present time, the existence of considerable sabotage elements within the Republic of Panama constitutes the most important factor tending to jeopardize the security of the Panama Canal, and through it, that of the US. The USSR, whether alone or assisted by satellite or conquered nations, is the only present potential threat to the US. It is also the only potential threat to Panama, since, in view of the strategic necessities arising out of the presence of the Canal in its territory and of existing treaty obligations, a threat to the US is also a threat to Panama. In the event of a decision by the USSR to begin hostile operations against the US, concurrent hostile operations can be expected both against the Canal and against the Republic of Panama. In the event of such hostilities, USSR activities in Panama will, it is expected, take the form of an extensive sabotage and subversive campaign. This action might possibly be coupled with a limited submarine campaign, and hit-and-run attacks by air forces operating from either ocean.

Within the confines of the Republic of Panama, it is estimated that the USSR's sabotage operations will be divided into two distinct fields: (1) sabotage activities arising out of control of organized labor, which will, by promoting strikes, slow-downs, and sit-downs, seek to impair directly transportation, political stability, and public utilities; and, only by indirection, the operation of the Canal; and (2) sabotage activities against US naval, military, and air establishments within the Republic and against certain facilities related to the operation of the Canal (examples are the Gatun Spillway and the Madden Dam) designed to disrupt directly the functioning of the Canal as an artery of transportation.

It cannot be doubted that Soviet agents can filter into the Republic of Panama for the purpose of promoting both types of sabotage. Furthermore, the Soviets can count, for local aid, on the well organized and disciplined management of the People's Party, which is the Communist Party of Panama. This group, not large numerically, owes its power to the fact that it is the directing force behind the Syndical Federation of Workers of Panama, an organization representing some eighteen unions in the Republic (it claims some 20,000 members, but 10,000 is believed to be a more accurate figure). Celso Solano, the Secretary General of the People's Party, is the Number One Communist of the Republic. At present he is known to take orders from Vicente Lombardo Toledano, the founder and president of the Confederation of Latin American Workers (CTAL). It is estimated, however, that were Lombardo Toledano, in the event of developments within Mexico, compelled to adhere to a national line as distinct from directives from Moscow, Solano would remain loyal to Moscow, and would do everything in his power to promote whatever objectives Moscow might dictate.

Local 713 of the United Public Workers of America, CIO, which has about 7,000 dues-paying members among the 32,000 government employees in the Canal Zone, is an

organization of proved Communist direction. Although by far the great majority of its members are not Communists, it is to be expected that in the event of hostilities between the US and Panama on the one hand, and the USSR on the other, such Communist leadership as this union possesses will do everything in its power to promote the interests of the USSR by fomenting labor disturbances with a view to impairing the operation of the Panama Canal.

In contrast with saboteurs identified with labor and political organizations in Panama, it is estimated that those saboteurs who will seek to impair the utility of the Canal by means of activities directed against its various installations and those of adjacent US army, navy, and air establishments, will not be persons now identified by US intelligence authorities with existing Communist Party or labor organizations in Panama or the Caribbean area. It is further estimated that such instructions as these saboteurs may receive will not be transmitted to them by any Communists now known to US intelligence authorities. These saboteurs will, on the contrary, receive their instructions from abroad by radio, mail, or other established means of communication, or from Soviet or satellite couriers or seamen who will have passed through the Republic of Panama immediately prior to the outbreak of hostilities. They will be agents who, in the past, have in no way compromised their usefulness as saboteurs by identifying themselves with recognized Communist activities or Party members.

SECTION VII

PROBABLE FUTURE DEVELOPMENTS

The Government of Panama (whether in the hands of the present administration or in those of its probable successor) will continue to base its policies upon a tacit recognition of the Republic's position as a quasi protectorate of the US. It will, however, continue to promote Panama's claims as a sovereign nation enjoying full equality under international law. As a consequence, Panama may be expected to reject the most recent US proposals on the defense-sites agreement as incompatible with its position as a sovereign nation. Should the US, however, elect, without a formal agreement between the two countries, to occupy its present bases, Panama will probably acquiesce in such occupation until domestic political conditions within the Republic are appropriate for the negotiation and ratification of an agreement acceptable to both countries. If the US were to become involved in a war with an extracontinental power, Panama could be expected to support the US and to permit the use of its territory as a base for operations for US troops.

It is expected that the present Jiménez Administration will be able to maintain public order and that the election scheduled for May 1948 will, by Panamanian standards, be peaceful and orderly. Present indications are that Arnulfo Arias will lose the election and that Vallarino or Fabrega may win. Despite Harmodio Arias' reported promise to support Arnulfo's candidacy in the election in 1952, there is a possibility, in the event of his death in 1948, that he may be unwilling to accept the popular verdict.

Panama can be expected to support most of the major US proposals in international conferences. At the same time it can be expected, both at the United Nations and in inter-American conferences, to put itself forward as the exponent of the doctrine of equality under law for all nations, regardless of size or resources.

The Panamanian Government can be expected to be able to associate with it the majority of its electorate in its recognition of the US as the dominant country in the Caribbean, particularly in those situations in which no commitment to any verbal statement of the position is involved.

It is not expected that the Communist People's Party of Panama will, within the foreseeable future, substantially increase the number of its adherents or the influence it exercises upon the domestic affairs of the Republic. The Socialist Party, on the other hand, with its leader, Demetrio Porras, back in Panama, may increase its strength somewhat in the forthcoming elections, but not on a scale that will enable it, as a party, to influence any future Panamanian Government. Communist Party members will continue their subversive activities in the Republic and will make every effort to maintain their control over organized labor unless and until they are instructed otherwise from Moscow.

The large number of West Indian negroes and negroes of West Indian origin in Panama will remain one of the basic political and social problems of the Republic. Unless and until a particular government—whether the US, which employs many of them, or Panama, in which they live, or Britain, which claims many of them as subjects—is able to convince them that they are being treated on a basis of equality with other nationals, they will remain highly sensitive to any leadership that promises to take an interest in their problems. Consequently, it is estimated that the present CIO-UPWA Communist-dominated union, to which a substantial number of them now belong and to which many feel a personal attachment, will continue, so long as it makes an issue of the alleged racial discrimination in the Zone and in the Republic to command their support.

APPENDIX B
POPULATION CHARACTERISTICS AND STATISTICS

Economically Active Population, 10 Years of Age
and Over by Provinces and Race
Census of 1940

PROVINCES	WHITE	NEGRO	MESTIZO	OTHERS	TOTAL
Panamá	12,198	18,518	35,562	2,256	68,934
Chiriquí	4,561	1,302	23,963	791	30,617
Veraguas	2,198	339	24,761	276	27,574
Colón	4,399	13,853	6,593	1,357	26,202
Coclé	826	699	15,972	182	17,690
Los Santos	3,357	105	13,272	24	16,758
Herrera	1,306	227	11,487	62	13,082
Bocas del Toro	220	2,650	1,083	209	4,162
Darién	97	1,410	1,151	41	2,699
TOTAL	29,162	39,103	134,255	5,198	207,718
Percent of Total	14.1	18.8	64.6	2.5	

APPENDIX C

Receipts of the Republic of Panama from the Canal Zone Classified as to Recipients and Purposes for the Fiscal Years 1939 - 1945

(In thousands of dollars)

RECIPIENTS AND PURPOSES	1939	1940	1941	1942	1943	1944	1945
Received by Individual Residents of Panama for Wages and Salaries							
US Gov't Agencies (excluding contract work for Army and Navy)	9,188	13,475	26,491	37,530	36,474	30,541	28,499
Army and Navy contract pay rolls	668	9,561	14,961	18,721	20,102	6,943	3,862
TOTAL US Gov't Agencies	9,786	23,036	41,452	56,251	56,576	37,484	32,361
Business concerns in Canal Zone	831	865	968	1,353	1,762	1,603	1,617
Domestic servants	1,034	1,034	1,034	1,851	2,083	1,851	1,658
TOTAL Wages and Salaries	11,651	24,935	43,454	59,455	60,421	40,938	35,636
For pension and disability relief	100	129	151	165	176	195	176
For rentals	..	2	3	15	39	33	5
TOTAL	11,751	25,066	43,608	59,635	60,636	41,166	35,815
Received by Business Enterprises in Panama							
Wholesale trade	2,551	2,890	3,095	4,875	7,393	7,447	8,100
Retail trade and services	8,960	11,953	15,532	26,202	26,938	23,597	21,596
Unclassified amounts to business enter- prises including contractors' profits and capital payments	671	1,216	1,827	4,454	2,171	1,729	2,366
TOTAL	12,182	16,059	20,454	35,531	36,502	32,773	32,062
Received by Government of Panama (direct receipts only)							
Rentals	430	430	437	573	700	755	667
Lottery	88	105	273	601	711	726	720
TOTAL	518	535	710	1,174	1,411	1,481	1,387
Total Receipts	24,451	41,660	64,772	96,340	98,549	75,420	69,268

APPENDIX D
BIOGRAPHICAL DATA

HARMODIO ARIAS, born 3 July 1886 in Penonomé, Panama, is a graduate of Cambridge University, England. A lawyer by profession, he has for many years combined a successful and lucrative law practice with politics.

During his term as President of Panama, 1932-1936, he was personally active in the negotiation of a new treaty with the US which today forms the basis of Panama-US relations. Subsequent to his retiring from the presidency, he has been active in the management of his newspaper, the influential *Panama American*, as well as many of his business ventures.

Harmodio Arias has been described by friend and foe alike, as "inscrutable, very intelligent, astute, extremely nationalistic and an anglophile." Whatever the truth of these statements may be, there can be no doubt that he is a singularly able lawyer, a man of considerable prestige among Panamanians and one who possesses extraordinary ability in foreseeing political trends within his own country. Although there are those who claim he again aspires to the presidency, he probably prefers to be "the power behind the throne", a role for which his intelligence, his law practice, his commercial interests, and his many personal connections throughout the world admirably fit him.

ARNULFO ARIAS, younger brother of Harmodio Arias, was born on 15 August 1901 at Penonomé, Panama. He was educated in the US and was a practicing physician and surgeon in Panama from 1925 to 1930. In 1931 he was a leader of the revolution which resulted in the election of his brother, Harmodio, as President. Since that time, Arnulfo has been active in politics. In 1937 he left Panama and held various diplomatic posts in Europe where he became a friend of Mussolini and many prominent Nazis while waiting for his turn as President, which had been promised him by the governing clique in return for his efforts in bringing about the election of Harmodio in 1932 and Arosemena in 1936.

In 1941, after he had returned to Panama and had been President for a year, public opinion turned against him because of his extreme nationalism, his dictatorial methods which showed a resemblance to Nazi practices, and his pro-Axis and anti-US attitudes. As a consequence, he was overthrown and exiled.

Since his return from exile in October 1945, Arnulfo has been tireless in his efforts to rebuild his political following and, feeling as he does that three years of his Presidential term were illegally denied him, he is determined again to become President.

Capable of inspiring blind confidence among his friends and intense hatred among his enemies, he is extremely popular among a substantial number of Panamanians who admire his personal courage and daring and find a vicarious pleasure in his personal irregularities. Basically Arias' political tenets, other than his ardent and extreme nationalism, appear to be amorphous and, as a result, he is particularly sus-

ceptible to friendships of the moment. Meanwhile, his elder brother Harmodio's influence is not without significance, although Arnulfo has at times been known to oppose his elder brother on basic issues.

JOAQUIN JOSE VALLARINO was born in Panama on 24 October 1889. He was educated in the US, receiving an MD degree from the University of Pennsylvania.

He has practiced medicine in Panama since 1913 and is considered one of the country's outstanding roentgenologists. He was Minister of Foreign Affairs from 1931 to 1932 and in 1945 was named Ambassador to the US. Personable, well liked by both Panamanians and US citizens, among the latter of whom he has many friends, Vallarino is considered to be very pro-US. He is not a politician in the usual sense of the word, and his selection as the Presidential candidate of the National Democratic Front and the support which Harmodio Arias has promised him in the forthcoming political campaign were possibly motivated by the feeling that his political inexperience would make him susceptible to control by the governing clique.

FRANCISCO AUED, Second Commandant of the National Police, was born on 14 November 1910 in Los Santos Province, Panama. He received his early education in Panama, and later attended Mexico's *Escuela Militar*.

Aued entered the National Police as a captain in 1940, and in 1941 was promoted to major largely as a reward for his services during the overthrow of former President Arnulfo Arias.

Major Aued is personable and intelligent, but considered basically unfriendly to the US. He is a heavy gambler and has a bad reputation among many Panamanians. He unquestionably exercises the power of his office as Chief of Police in Colón to further his own interests. One of Aued's activities is the "regulation" of prostitution.

In view of his unsavory reputation and the unlikelihood of his continuing in office should Vallarino become President, Aued can be expected to place his influence behind whoever seeks the presidency by a coup so that he can perpetuate himself in office on the basis of services rendered. For this reason Aued could be expected to align himself, and that portion of the police force he controls, with Arnulfo Arias should the latter seek to foment a coup in order to gain office.

JOSE ANTONIO REMON is in command of the Panama National Police. He was born in Panama City in 1909 and received his early education there. Subsequently he attended Mexico's *Escuela Militar*.

Shortly after Remón's return to Panama he was made a Captain in the National Police and later became Chief of the First Section, which covers Panama City and its immediate environs. In 1933, rather than accept an assignment to Bocas del Toro, he went into private business operating a garage. In 1939 he re-entered the National Police and was named Commandant in February 1947.

Remón is considered to be pro-US and attempts to administer the police force with honesty and impartiality. He is loyal to the present administration and would probably be loyal to Vallarino were he elected. However, he is a personal enemy of Arnulfo

Arias and can be expected to do everything in his power to prevent Arnulfo from becoming President by illegal means. In view of Aued's reported pro-Arnulfo leanings, a widening rift can be expected to develop between these two officials of the National Police which may translate itself into the factionalizing of the police force itself.

244C

CENTRAL INTELLIGENCE AGENCY
Intelligence Information Cable

ROUTINE

COUNTRY PANAMA

TDCS 3/577,334

DATE OF
INFO. 23-30 MARCH 1964

DISTR. 1 APRIL 1964

SUBJECT

PLANNING FOR REVOLUTIONARY ACTION IN PANAMA

PLACE &
DATE ACQ.

(31 MARCH 1964)

REF

IN 51274

SOURCE
AND
APPRAISAL

APPRAISAL: 3.

[Source]

IS CERTAIN JORGE AND DAVID TURNER, LEADERS OF THE VAN, ARE PLANNING AN ARMED UPRISING IN THE NEAR FUTURE. THE ORGANIZATIONAL PLAN OF THE UPRISING HAS BEEN MADE AND THE MILITARY RANKS HAVE BEEN ASSIGNED. GILBERTO VELASQUEZ, VAN MILITARY LEADER TRAINED IN CUBA, IS INVOLVED IN THE PLAN AND VISITS JORGE TURNER'S HOME EVERY DAY. VELASQUEZ IS WORKING DILIGENTLY, BUT MAKES THE MISTAKE OF WALKING AROUND TOWN IN OLIVE GREEN TROUSERS AND COMBAT BOOTS, THUS CALLING ATTENTION TO HIS APPEARANCE AND AROUSING THE SUSPICIONS OF THE

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STATE/INR DIA ARMY/ACSI NAVY AIR JCS SECDEF NSA NIC AID USIA OCF ORF OCF ORR OO

CTMCHEAFSA

EXO DDI

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(When Filled In)

TDCS 3/577,334

IN 51271

PAGE 2

AUTHORITIES. [Source]

2. | SAID THAT THE POSSIBLE PARTICIPANTS IN THE UPRISING ARE UNDERGOING DENTAL TREATMENT, SINCE THIS ASPECT OF PHYSICAL FITNESS IS VITAL FOR PERSONS SERVING AS GUERRILLAS IN THE MOUNTAINS. THE FACT THAT THEY ARE AT THIS POINT OF PREPARATION INDICATES THAT THE UPRISING WILL OCCUR IN THE NEAR FUTURE. AT THE TIME OF THE UPRISING AND BECAUSE HE IS NOT QUALIFIED FOR GUERRILLA ACTIVITY, DAVID TURNER WILL BE SENT TO ANOTHER COUNTRY WHERE HE WILL SERVE AS THE FOREIGN INTELLECTUAL LEADER OF THE MOVEMENT. (FIELD COMMENT: DAVID TURNER RECENTLY MOVED HIS FAMILY TO MEXICO AND PLANS TO MAKE HIS OWN HOME THERE.)

3. |

4. [Another source said that] ON 30 MARCH

JORGE CHANDECK, CARLOS GARCIA, AND LUIS AGUILAR HAD
[Source] RETURNED TO PANAMA FROM CUBA AHEAD OF SCHEDULE. | SAID THAT THIS INDICATES | THAT SOME SERIOUS ACTION MAY BE IMMINENT IN PANAMA, EVEN THOUGH SHE HAS NOT BEEN INFORMED.

CLASSIFICATION - DISSEMINATION CONTROLS

TDCS 3/577,334

IN 51271

PAGE 3

5. FIELD DISSEM: STATE, ARMY, NAVY, AIR, CINCLANT, CINCSO, CINCEAFSA.

END OF MESSAGE

CLASSIFICATION - DISSEMINATION CONTROLS

FORM 10-1
1-63

USE PREVIOUS
EDITIONS

AMG. 7-63

(19-0-11-47)

CONTINUATION OF TDCS INFORMATION REPORT

No. 0640/68

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
5 March 1968

INTELLIGENCE MEMORANDUM

PANAMA

(Situation Report #3 - As of 0001 EST)

1. The National Assembly, which convened without serious incident at 5:00 PM EST, has recessed--ostensibly while the legislators await a leadership decision on the make-up of a commission which is to "study" impeachment charges levied against President Robles. In fact, both sides are waiting for evidence the other is complying with the terms of the compromise reached last night.

2. A crowd estimated by the embassy to number 7,000 at its peak gathered in the vicinity of the Assembly before the session got under way but dwindled to half that number by 7:00 PM. The opposition National Union adherents were said to outnumber government supporters 3 to 2 in the noisy crowd. Both sides were relatively orderly. The National Guard remained in control of the situation.

3. The Assembly may postpone further action until Robles follows through on his part of the compromise by appointing a "nonpartisan" cabinet. Robles also promised today to amend the electoral code.

4. A spokesman for Arnulfo Arias' National Union has said that Robles is demanding that the impeachment charges be dropped altogether before announcing a new cabinet. Arias has threatened to press for a hearing on the charges if Robles fails to come across.

5. Robles was last reported to be at the Guard headquarters, along with representatives of both factions. His moves over the next few hours will determine what action the Assembly takes when it reconvenes--probably tomorrow.

Declassified by 033769
12 DEC 1978

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CENTRAL INTELLIGENCE AGENCY
Intelligence Information Cable

• ROUTING

COUNTRY PERU/CHINA

DATE INFO 8 FEBRUARY 1964

TDCS -3/572,629

DISTR. 11 FEBRUARY 1964

SUBJECT

DECISION BY THE MOVIMIENTO DE IZQUIERDA REVOLUCIONARIO
TO BEGIN PREPARATIONS FOR REVOLUTION

PLACE &
DATE ACQ.

TDCS-3/572,365 IN

SOURCE
AND
APPRAISAL

1. THERE WAS A CONFERENCE OF NATIONAL LEADERS OF THE MOVIMIENTO DE IZQUIERDA REVOLUCIONARIO (MIR) AT A SECRET MEETING PLACE IN THE RIMAC DISTRICT OF LIMA ON 8 FEBRUARY 1964. THE CONFERENCE WAS LED BY LUIS DE LA PUENTE UCEDA, AND THE FOLLOWING DECISIONS WERE TAKEN:

- A. THE MIR WILL NOT HOLD A NATIONAL CONGRESS.
- B. THE MIR MEMBERSHIP WILL BE INSTRUCTED BY THE THREE REGIONAL CHIEFS TO PREPARE FOR ARMED REVOLUTION IMMEDIATELY.
- C. THE MIR HAS ARMS IN COLOMBIA, BRAZIL, ARGENTINA, CHILE, AND ECUADOR, AND THESE ARMS WILL NOW BE BROUGHT INTO PERU. THERE ARE 17,000 DOLLARS WORTH OF ARMS IN CHILE, 20,000 DOLLARS WORTH IN

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ATTN: DIA ARMY/ACSI NAVY AIR JCS SECDEF NSA NIC AID USIA

APPROVED FOR RELEASE
Date 5 August 1977

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, AND 7,000 DOLLARS WORTH IN ARGENTINA.

DE LA PUENTE SAID THAT THE MIR HAS THE EQUIVALENT OF 80 MILLION SOLES (3 MILLION DOLLARS) IN SWISS BANKS. THIS MONEY WAS CONTRIBUTED BY CHINA. THE MIR MAINTAINS CONTACT WITH CHINA THROUGH CHINESE EMBASSIES AND REPRESENTATIVES IN LONDON, BERN, STOCKHOLM, AND BRUSSELS. THERE ARE 600,000 DOLLARS AT MIR DISPOSAL IN PARIS. CHINA HAS PROMISED TO CONTRIBUTE 50 MILLION DOLLARS FOR THE REVOLUTION, IF NECESSARY.

A MIR MEMBER NAMED CANDELARIO MEJIA LAREDO, ALSO KNOWN AS GOLBY, WHO LIVES AT CALLE LA MERCED 203, CHICLAYO, HAS 2,500 STICKS OF DYNAMITE HIDDEN AT A CAMP NEAR CHICLAYO. ALSO HIDDEN THERE ARE FIVE CARBINES AND FOUR REVOLVERS. MAXIMO VELANDO, IN THE CENTRAL REGION HAS THREE CARBINES, CALIBRE .44, FIVE REVOLVERS, CALIBRE .38, TWO PISTOLS, AND ONE MACHINE GUN.

MERCEDES MORALES, WHO WAS ONE OF THE MIR MEMBERS ARRESTED IN JANUARY, HAS LEFT FOR PARIS AND WILL TRAVEL TO CHINA.

COMMENT: DE LA PUENTE MADE A FIERY SPEECH AT A RALLY IN THE PLAZA SAN MARTIN THE EVENING OF 7 FEBRUARY. HE EXHORTED THE CROWD, WHICH WAS ENTHUSIASTIC, TO TAKE UP ARMS AND REVOLT. THE RALLY WAS SPONSORED BY THE MIR, THE FRENTE DE IZQUIERDA REVOLUCIONARIO, THE PRO-CHINA FACTION OF THE PARTIDO COMUNISTA PERUANO, THE FRENTE DE LIBERACION NACIONAL, AND SAN MARCOS UNIVERSITY STUDENTS.)

CLASSIFICATION - DISSEMINATION CONTROLS

TDCS-3/572,629

PAGE 3

FIELD DISSEM: STATE ARMY NAVY AIR CINCSO CINCLANT, CINCPAC,
PACAF, ARPAC, PACFLT.

END OF MESSAGE

CLASSIFICATION - DISSEMINATION CONTROLS

0096

MPO. 8-63. (15-20-44-47)

CONTINUATION OF TDCS INFORMATION REPORT

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CENTRAL INTELLIGENCE AGENCY
Intelligence Information Cable

ROUTINE

COUNTRY PERU

DATE OF INFO. 10 FEBRUARY 1964

TDCS-3/572,658

DISTR. 12 FEBRUARY 1964

SUBJECT

PLANS OF THE MIR FOR REVOLUTIONARY ACTION

PLACE &
DATE ACQ

REF

IN 174513

SOURCE

AND
APPRAISE

1. THERE WAS A MEETING OF LEADERS OF THE MOVIMIENTO DE IZQUIERDA REVOLUCIONARIO (MIR) ON 10 FEBRUARY 1964. IT WAS LED BY LUIS DE LA PUENTE UCEDA, THE MIR CHIEF. IT WAS DECIDED THAT THE MIR WILL BEGIN REVOLUTIONARY ACTION WITHIN THE NEXT TWO OR THREE MONTHS. DE LA PUENTE BELIEVES THAT CONDITIONS FOR REVOLUTION ARE NOW EXCELLENT BOTH POLITICALLY AND OPERATIONALLY, BUT DOES NOT FEEL THE MIR HAS REACHED TOP CONDITION. HE WISHES, HOWEVER, TO TAKE ADVANTAGE OF THE RAINY SEASON IN THE SIERRA AND TRY TO INITIATE REVOLUTIONARY ACTION BEFORE THE END OF APRIL.

2. DE LA PUENTE SAID HE HAD RECEIVED A LETTER FROM MAO TSE-TUNG

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RECOMMENDING THAT THE REVOLUTIONARY PARTIES OF THE LEFT UNITE. THE MIR IS ALREADY CO-OPERATING CLOSELY WITH THE FRENTE DE LIBERACION NACIONAL, THE PRO-CHINA FACTION OF THE PARTIDO COMUNISTA PERUANO, AND THE JUVENTUD COMUNISTA PERUANO IN RALLIES AND DEMONSTRATIONS. DE LA PUENTE SAID THAT HE WOULD CONTINUE SUCH CO-OPERATION BUT THAT HE IS AGAINST WORKING WITH THEM IN REVOLUTIONARY UNDERTAKINGS.

3. DE LA PUENTE SAID THAT ARMS COMING FROM BRAZIL WOULD BE USED IN SUPPORT OF THE NORTHERN AND CENTRAL DEPARTMENTS, SUCH AS JUNIN. THESE ARMS WILL BE BROUGHT THROUGH MANAUS, BRAZIL, ON THE AMAZON. HE SAID THAT IN EACH INSTANCE WHERE ARMS ARE BROUGHT INTO PERU FROM A NEIGHBORING COUNTRY, THEY WOULD SERVE THE NEEDS OF THE MIR IN DEPARTMENTS BORDERING ON THAT COUNTRY.

4. DE LA PUENTE DIRECTED EDMUNDO CUZQUEN TO LEAVE FOR TACNA ON 11 FEBRUARY AND TO RENT A HOUSE THERE WITH A GARAGE OR PATIO LARGE ENOUGH FOR STORING ARMS. ARMS ARE NOW IN ARICA, CHILE. HE GAVE CUZQUEN 15,000 SOLES (US\$600) TO PAY THE RENT. THE ARMS WILL BE BROUGHT OVER TO TACNA FROM ARICA DURING FEBRUARY IN A STATION WAGON OR PANEL TRUCK. THEY WILL BE CONCEALED IN THE SEATS AND SPARE TIRES. A STATION WAGON HAS ALREADY BEEN PURCHASED IN AREQUIPA FOR TRANSPORTING THE ARMS FROM CHILE. IT IS IN THE POSSESSION OF MAXIMO VELEZMORO, AN ENGINEER. IT WAS AGREED THAT EVERY CAR THE MIR BUYS WILL BE ALTERED IN APPEARANCE FOLLOWING EACH TRIP. NO CAR WILL MAKE THE SAME TRIP TWICE BUT WILL BE SENT ON TO ANOTHER PART OF THE COUNTRY. AT THE END

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OF TWO MONTHS EACH VEHICLE WILL BE REPLACED.

5. THE TRAVEL ROUTES FOR MIRISTAS GOING ABROAD TO GUERRILLA TRAINING CAMPS ARE AS FOLLOWS: FOR THOSE GOING TO NORTH KOREA, THE ROUTE WILL BE BY WAY OF CHILE, ARGENTINA, PARIS, ALGERIA, AND NORTH KOREA. FOR THOSE GOING TO CHINA THE ROUTE WILL BE PARIS, MARSEILLES, AND CHINA. DE LA PUENTE SAID THERE ARE NOW EIGHT STUDENTS IN CHILE PREPARING TO GO TO NORTH KOREA. HE ADDED THAT 20 MIRISTAS WILL GO TO CHINA ON 2 OR 3 MARCH.

6. DE LA PUENTE HAD EARLIER COMMENTED THAT MIR TRAINEES BOUND FOR CHINA AND NORTH KOREA WOULD NO LONGER GO BY WAY OF MOSCOW. HE SAID HE BELIEVES THAT THE SOVIET UNION IS CO-OPERATING WITH THE U.S. IN IDENTIFYING MIRISTA TRAVELERS.

7. FIELD DISSEM: STATE ARMY NAVY AIR CINCSO CINCLANT.

END OF MESSAGE

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MFO. 6-63

(13-20-44-47)

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CITE : TDFIRDB-315/03773-73

DIST 20 APRIL 1973

COUNTRY: PERU

DOI: MID-APRIL 1973

SUBJECT: PLANS OF PERUVIAN GOVERNMENT TO BRING PRESSURE ON
CERRO DE PASCO MINING COMPANY WITH A VIEW TO
NATIONALIZING IT

ACCI

SOURCE: [REDACTED]

SUMMARY: THE PERUVIAN GOVERNMENT PLANS TO IMPOSE
MEASURES ON MINING INDUSTRIES IN PERU WHICH WILL ENABLE THE
GOVERNMENT TO BRING PRESSURE ON THE CERRO DE PASCO MINING
COMPANY WITH A VIEW TO NATIONALIZING IT. THE MEASURES HAVE
BEEN PROPOSED BY GENERAL JORGE FERNANDEZ HALDONADO.

RP 3254 -1

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IN 881625

IDFIRCS 305:03775-73

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(classification)

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MINISTER OF ENERGY AND MINE, WHOSE MOTIVE FOR PROPOSING THE MEASURES IS TO SEIZE ON AN ISSUE OF SUFFICIENT DRAMA TO MAKE HIM THE FRONT RUNNER TO SUCCEED PRESIDENT JUAN V E L A S C-O ALVARADO WHO IS AILING. END OF SUMMARY.

1. [REDACTED]
THE PERUVIAN GOVERNMENT WILL APPROVE MOTIONS MADE BY MINISTER OF MINES AND ENERGY GENERAL JORGE F E R N A N D E Z MALDONADO TO IMPOSE STANDARDS FOR WORKERS' HOUSING, POLLUTION CONTROL, AND SIMILAR MEASURES ON MINING INDUSTRIES IN PERU. THE ADMITTED PURPOSE OF THESE MEASURES WITHIN THE PERUVIAN GOVERNMENT IS TO ENABLE THE GOVERNMENT TO BRING PRESSURE ON THE CERRO DE PASCO MINING COMPANY WITH A VIEW TO NATIONALIZING IT. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

2. [REDACTED] COMMENT: ANOTHER SOURCE [REDACTED]
[REDACTED] REPORTED IN EARLY APRIL THAT FERNANDEZ MALDONADO HAD BEEN CREATING DIFFICULTIES FOR CERRO DE PASCO. HE ALSO SAID THAT FERNANDEZ MALDONADO IS PREPARING TO STRIKE AGAINST [REDACTED]

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THE MARCONA MINING COMPANY AND THAT IT WOULD MOST LIKELY BE THROUGH AN ACCUSATION THAT MARCONA HAS OPERATED ILLEGALLY IN PERU FOR SEVERAL YEARS.)

3. A DISCUSSION OF CERRO DE PASCO WAS HELD [REDACTED]

[REDACTED] UNDER THE CHAIRMANSHIP OF FERNANDEZ MALDONADO. IT WAS DECIDED TO PLACE BEFORE THE CABINET [REDACTED] SPECIFIC DECREES FOR PASSAGE WHICH WILL IMPOSE HIGH STANDARDS FOR WORKERS' HOUSING, FOR CONTROL OF CONTAMINATION OF RIVERS AND THE ATMOSPHERE, AND OTHER MEASURES. FERNANDEZ MALDONADO'S SPECIFIC PURPOSE IS TO GIVE THE GOVERNMENT TOOLS TO ENABLE IT TO TAKE OVER THE U.S.-OWNED CERRO DE PASCO. [REDACTED] COMMENT: CERRO DE PASCO AND THE PERUVIAN GOVERNMENT, OF COURSE, HAVE BEEN NEGOTIATING FOR SOME TIME THE TAKEOVER BY THE PERUVIAN GOVERNMENT OF THE COMPANY'S HOLDINGS IN PERU, WHICH IS THE COMPANY'S ULTIMATE AIM. HOWEVER, THE TWO SIDES ARE FAR APART. CERRO DE PASCO VALUES ITS HOLDING IN PERU AT U.S. \$170-180 MILLION. THE MINISTER OF MINES ESTIMATES THAT THE GOVERNMENT WILL FINALLY GET THE COMPANY FOR ABOUT U.S. \$12 MILLION.)

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(classification)

(dissem controls)

4. THE VEHICLE FOR WHITTILING DOWN CERRO DE PASCO'S WORTH WILL BE FINES-LEVIED AGAINST THE COMPANY BY THE GOVERNMENT FOR FAILURE TO OBSERVE THE NEW REGULATIONS: ON HOUSING AND POLLUTION, ETC. AT THE MEETING IT WAS ESTIMATED THAT UNDER THE PROPOSED DECREES CERRO DE PASCO COULD BE ORDERED BY THE GOVERNMENT TO INVEST IMMEDIATELY SOME 500 MILLION SOLES (OVER U.S. \$1,000,000) IN HOUSING ALONE. THE MORE RADICAL ADVISORS IN THE MINISTRY RECOMMENDED THAT, IF THE COMPANY BALKS AT THE NEW DECREES OR DOES NOT REACT PROMPTLY TO THE LEVEL OF EXPENDITURES REQUIRED, THE GOVERNMENT COULD COMPLETELY INTERVENE THE COMPANY. MORE MODERATE ADVISE WAS SIMPLY TO INTERVENE THE COMPANY TO THE EXTENT NEEDED TO COMPLY WITH NEW DECREES, IN ANY CASE. IT WAS AGREED THAT THESE DEVICE, PURPOSELY MADE APPLICABLE TO ALL-MINING ENTERPRISES IN PERU IN ORDER TO AVOID THE COMPANY CLAIMING IT WAS BEING SINGLED OUT FOR PUNITIVE TREATMENT, WERE DESIGNED TO PROVOKE THE COMPANY TO CHALLENGE THE GOVERNMENT OR TO CAUSE IT TO LOSE INTEREST IN ITS HOLDINGS IN PERU BY THREATENING TO IMPOSE EVER MORE CONFISCATORY FINES AND TAXES. IN THE LATTER CASE THE COMPANY'S WILL TO BARGAIN STIFFLY WITH THE GOVERNMENT

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FOR REASONABLE COMPENSATION WILL BE DIMINISHED.

5. THE KEY TO THESE MOVES IS CURRENT NEGOTIATIONS FOR FOREIGN INVESTMENT IN NUMEROUS MINING ENTERPRISES IN PERU. THIS CHIEFLY CONCERNS THE EFFORTS TO NAIL DOWN THE FINANCING FOR THE SOUTHERN PERU COPPER COMPANY, WHICH IS REQUIRED BY CONTRACT BEFORE 30 JUNE 1973. COMMENT: THE CHASE MANHATTAN BANK OF NEW YORK CITY IS THE PRINCIPAL INSTITUTION ATTEMPTING TO ARRANGE THE SOME 350 MILLION DOLLAR INVESTMENT REQUIRED.) FERNANDEZ MALDONADO IS EXCEEDINGLY NERVOUS ABOUT GRASPING THE NETTLE THAT THE MOVE ON CERRO DE PASCO ENTAILS AND DOES NOT INTEND TO DO SO UNTIL THE FOREIGN FINANCING OF OTHER MINE VENTURES IN PERU HAS BEEN SUCCESSFULLY ARRANGE OUT OF FEAR THAT THE IMPACT OF FORCLOSING ON CERRO DE PASCO WOULD CAUSE OTHER INVESTORS TO LOSE CONFIDENCE IN THE GOOD FAITH

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OF THE PERUVIAN GOVERNMENT.

6. HIGH-LEVEL OFFICIALS OF THE MINISTRY OF MINES EXPLAIN FERNANDEZ MALDONADO'S TACTICS VIS-A-VIS CERRO DE PASCO AS PART OF THE SUCCESSION STRUGGLE NOW GOING ON BEHIND THE SCENE IN PERU. FERNANDEZ MALDONADO BELIEVES HIMSELF TO BE OF PRESIDENTIAL CALIBER AND YET FEELS HE REQUIRES SOME DRAMATIC GESTURE TO PUT HIS NAME EVEN MORE BEFORE THE PUBLIC AND THE ARMED FORCES THAN IT IS TODAY. THE ONLY VEHICLE READILY ACCESSIBLE IN HIS CAPACITY AS MINISTRY OF ENERGY AND MINES IS THE LONG-STANDING PROBLEM OF CERRO DE PASCO. THIS WILL PERMIT ANTI-YANKE AGITATION AND CAN BE PRESENTED AS A NATIONAL TRIUMPH. REMONSTRANCE BY OFFICIALS OF THE MINISTRY THAT THE GOVERNMENT CANNOT IN FACT RUN SUCH A COMPLEX MINING OPERATION AS CERRO DE PASCO WITHOUT FOREIGN (I.E. U.S.) TECHNICAL HELP ARE BEING BRUSHED ASIDE BY FERNANDEZ MALDONADO FOR THESE POLITICAL REASONS. COMMENT: FERNANDEZ MALDONADO AND GENERAL LEONIDAS RODRIGUEZ FIGUEROA, HEAD OF THE NATIONAL SYSTEM OF SUPPORT FOR SOCIAL MOBILIZATION (SINAMOS), AS HE MAINTAINS CLOSE CONTACT WITH CUBAN EMBASSY OFFICIALS

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IN PERU TO CONCERT TACTICS ON THE PART OF THE RADICAL IN
THE GOVERNMENT IN THE PRESENT EYE-OF-SUCCESSION SITUATION.
HIS PURPOSE, AND THAT OF THE CUBAN, IS THAT, EVEN IF HE
(FERNANDEZ MALDONADO) DOES NOT MAKE IT TO THE PRESIDENCY BY
THIS TACTIC AND ALLIED MEASURES, IT WILL BE A FAIT ACCOMPLI
FOR THE NEW PRESIDENT ONE HE WILL NOT BE ABLE TO REVERSE
AND ONE WHICH WILL HAVE THE GENERAL EFFECT OF DRIVING A
WEDGE BETWEEN THE PERUVIAN GOVERNMENT AND WESTERN LENDING
AND INVESTMENT INSTITUTIONS. THUS IT WILL CAUSE PERU IN THE
FUTURE TO RELY "FORCE MAJEURE" MORE AND MORE ON THE SOCIALIST
COUNTRIES FOR SUPPORT AND TECHNICAL ADVICE.

7. FERNANDEZ MALDONADO HAS [REDACTED] SAID

[REDACTED] THAT THE NATIONALIZATION OF CERRO MUST BE COMPLETED
BY 31 DECEMBER 1973 BUT ALSO MUST BE WELL ON ITS WAY LONG BEFORE
THAT.

8. [REDACTED]

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CITE ~~XXXX~~ TDFIRDB-315/05873-73

DIST 20 JUNE 1973

COUNTRY PERU

DOI 18 JUNE 1973

SUBJECT PERUVIAN GOVERNMENT CAMPAIGN AGAINST
THE CERRO DE PASCO CORPORATION

ACQ

SOURCE

1. ON 18 JUNE

SAID THAT HE HAD LEARNED

FROM GENERAL JOSE G R A H A M HURTADO, CHIEF OF THE ADVISORY
COMMITTEE TO THE PRESIDENCY (COAP), THAT THE PERUVIAN GOVERNMENT
WOULD BEGIN ON 19 JUNE A CAMPAIGN AGAINST THE AMERICAN-OWNED
CERRO DE PASCO CORPORATION, WHOSE PERUVIAN HOLDINGS THE GOVERN-
MENT HAS DECIDED TO EXPROPRIATE. GRAHAM SAID THAT THE CAMPAIGN
WOULD BEGIN WITH THE PUBLICATION OF INFORMATION FROM THE

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MINISTRY OF ENERGY AND MINES REGARDING THE FAILURE OF CERRO DE PASCO TO PROVIDE HOUSING FOR ITS WORKERS AS REQUIRED BY LAW.

2. ACCORDING TO [REDACTED], GRAHAM SAID THAT THE CAMPAIGN WILL SHOW THAT CERRO DE PASCO HAS NOT COMPLIED WITH LAWS REGARDING THE WELFARE OF ITS WORKERS AND, FURTHER, THAT THE COMPANY'S FINANCIAL SITUATION IS NOT AS SOLID AS IT RECENTLY SAID IT WAS.

3. [REDACTED] COMMENT: ON 19 JUNE LIMA NEWSPAPERS REPORTED THE ISSUANCE OF A COMPLEMENTARY DECREE TO THE 8 MAY DECREE LAW 20007 REQUIRING THAT ALL MINING COMPANIES PROVIDE WORKERS WITH ADEQUATE HOUSING, SCHOOLS, RECREATION CENTERS, AND SOCIAL AND MEDICAL ASSISTANCE. CERRO DE PASCO WAS CITED AS ONE OF THE MOST NOTORIOUS VIOLATORS OF THE LAW, AND IT WAS ESTIMATED THAT TO COMPLY WITH THE LAW, THE COMPANY WOULD HAVE TO INVEST ABOUT TWO AND ONE-HALF BILLION SOLES (ABOUT US\$57,630,242) WITHIN A FIVE-YEAR PERIOD. "EXPRESO," THE LEFTIST PRO-GOVERNMENT DAILY, CARRIED THE GOVERNMENT'S DENUNCIATION OF CERRO DE PASCO FOR NON-COMPLIANCE ON ITS FRONT PAGE.)

4. [REDACTED] COMMENT: IT WAS REPORTED [REDACTED]

[REDACTED] THAT GENERAL JORGE FERNANDEZ MALDONADO

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SOLARI, MINISTER OF ENERGY AND MINES, HAD TOLD OFFICIALS OF HIS MINISTRY THAT PRESIDENT JUAN VELASCO ALVARADO HAD APPROVED THE NATIONALIZATION OF CERRO DE PASCO BY MID-SEPTEMBER. AN

EARLIER REPORT

SAID THAT FERNANDEZ MALDONADO HAD PROPOSED IMPOSITION OF MEASURES SUCH AS POLLUTION CONTROL AND HOUSING REQUIREMENTS ON THE MINING INDUSTRY, THE ADMITTED PURPOSE OF WHICH WOULD BE TO ENABLE THE GOVERNMENT TO BRING PRESSURE ON CERRO DE PASCO WITH A VIEW TO NATIONALIZING IT. THAT REPORT RELATED FERNANDEZ MALDONADO'S ACTION REGARDING CERRO DE PASCO TO HIS AMBITION TO SUCCEED PRESIDENT VELASCO.)

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CITE TDFIRDB-315/06953-73

DIST 23 JULY 1973

COUNTRY PERU

DOI MID-JULY 1973

SUBJECT DEVELOPMENTS IN THE PLANS OF THE MINISTER OF MINES TO
TAKE OVER THE PERUVIAN HOLDINGS OF THE CERRO DE PASCO
CORPORATION

ACQ

SOURCE

SUMMARY: THE MINISTER OF ENERGY AND MINES IS PERSISTING IN HIS PLANS TO TAKE OVER THE PERUVIAN HOLDINGS OF THE CERRO DE PASCO CORPORATION AT AN IMPOSED MINIMUM PRICE. PRESIDENT VELASCO AND THE CABINET ARE NOT AWARE OF THE TACTICS BEING PURSUED BY THE MINISTER TO REDUCE COMPENSATION FOR THE COMPANY OR TO LESSEN ITS RESOLVE TO GET A FAIR PRICE FOR ITS HOLDINGS. THE LATEST ACTIONS TAKEN AGAINST CERRO BY THE MINISTRY OF MINES INCLUDE REGULATIONS

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SETTING EVALUATION PROCEDURES FOR MINING PROPERTIES, THE CUTTING OFF OF RELATIONS BETWEEN MINEROPERU AND CERRO SALES, AND PROVOKING LABOR TROUBLES. IN ADDITION, THE GOVERNMENT MAY NOT RELEASE MONIES OWED TO CERRO FOR PROFIT WHICH THE COMPANY JUDGES ARE IN ARREARS.
END SUMMARY.

1. [REDACTED] COMMENT: IT WAS REPORTED [REDACTED]

[REDACTED] THAT GENERAL JORGE FERNANDEZ MALDONADO SOLARI, MINISTER OF ENERGY AND MINES, WAS PROPOSING THAT THE PERUVIAN GOVERNMENT IMPOSE MEASURES ON THE MINING INDUSTRY OF PERU, THE ADMITTED PURPOSE OF WHICH WOULD BE TO ENABLE THE GOVERNMENT TO BRING PRESSURE ON THE AMERICAN-OWNED CERRO DE PASCO MINING CORPORATION WITH A VIEW OF NATIONALIZING ITS PERUVIAN HOLDINGS. THE EMBASSY IN LIMA IS INFORMED THAT CERRO DE PASCO IS DUE TO BEGIN NEGOTIATING WITH THE PERUVIAN GOVERNMENT REGARDING THE SALE OF ITS HOLDINGS ON 1 AUGUST 1973.)

2. FERNANDEZ MALDONADO IS PERSISTING IN HIS PLANS TO TAKE OVER THE HOLDINGS IN PERU OF THE CERRO DE PASCO CORPORATION AT AN IMPOSED MINIMUM PRICE, FERNANDEZ MALDONADO HAS THE APPROVAL OF THE COUNCIL OF MINISTERS TO BRING THIS ISSUE TO A HEAD BETWEEN 31 AUGUST AND 30 SEPTEMBER 1973.

COMMENT: FERNANDEZ [REDACTED]

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MALDONADO PLANS TO ATTEND THE BIENNIAL MEETING OF THE MINISTERS OF THE INTERGOVERNMENTAL COMMITTEE OF COPPER PRODUCING COUNTRIES (CIPEC), TO BE HELD IN LUSAKA, ZAMBIA, FROM 8 TO 12 SEPTEMBER. IT IS LIKELY THAT HE WILL POSTPONE THE SHOWDOWN WITH CERRO DE PASCO UNTIL HIS RETURN.)

3. THE COUNCIL OF MINISTERS AND PRESIDENT JUAN V E L A S C O ALVARADO, HOWEVER, ARE NOT AWARE OF, NOR HAVE THEY APPROVED, THE TACTICS CURRENTLY BEING PURSUED BY FERNANDEZ MALDONADO TO REDUCE COMPENSATION FOR THE COMPANY OR TO LESSEN ITS RESOLVE TO GET A FAIR PRICE FOR ITS HOLDINGS. COMMENT: THE REQUIREMENTS FOR WORKERS' HOUSING WERE DRAFTED BY THE MINISTRY WITH CERRO SPECIFICALLY IN MIND. THE COMPANY HAS NOW FILED ITS PLAN FOR THE EXPENDITURE OF 65 MILLION DOLLARS OVER FIVE YEARS TO COMPLY WITH THIS REQUIREMENT. LIKEWISE, EARLIER REGULATIONS REGARDING POLLUTION CONTROL WERE ALSO DRAFTED WITH CERRO DE PASCO IN MIND. EITHER TO BLEED THE COMPANY OR TO FIND IT IN VIOLATION OF THE LAW.) THE LATEST REGULATION DEVISED IN THE MINISTRY WITH CERRO DE PASCO IN MIND IS THE DECREE LAW SETTING EVALUATION PROCEDURES FOR MINING PROPERTIES WHICH PROVIDES FOR THREE SEPARATE MEANS OF ARRIVING AT A VALUE FOR A GIVEN PROPERTY. MINISTRY

OFFICIALS ARE AWARE THAT FEW OF CERRO DE PASCO'S HOLDINGS WOULD, UNDER THESE RULES, BE EVALUATED AT ANYWHERE NEAR THEIR VALUE AS A GOING BUSINESS OR FOR POTENTIAL RETURN. THE NEXT MOVE AGAINST CERRO DE PASCO IS LIKELY TO BE GOVERNMENT PROVOCATION OF LABOR DEMANDS AGAINST THE COMPANY. ONE REASON FOR THIS TACTIC IS THAT CERRO DE PASCO'S WORKERS ARE KNOWN BY THE MINISTRY TO BE CONFUSED AS TO THE BEST SOLUTION FOR THE COMPANY AS REGARDS THEIR OWN INTERESTS; THE MINISTRY JUDGES THAT THE BEST WAY TO APPROACH THIS PROBLEM IS TO STIR UP THE WORKERS' FEELING AGAINST THE COMPANY AND IN THIS WAY INCLINE LABOR TOWARDS THE TAKEOVER OF THE COMPANY BY THE GOVERNMENT.

4. [REDACTED] PRIVATELY DESCRIBES FERNANDEZ MALDONADO'S PLANS AS "CONFISCATION." HOWEVER, HE IS TOO LOYAL [REDACTED] TO GO OUTSIDE THE CHAIN OF COMMAND TO WARN THE COUNCIL OF MINISTERS OF THE LIKELY RESULT, WHICH IS PARALYSIS OF THE MINE IF CERRO DE PASCO SHOULD PULL OUT [REDACTED] IS CONVINCED THAT FERNANDEZ MALDONADO IS HOODWINKING THE COUNCIL OF MINISTERS, EGGED ON BY HIS TWO KEY COMMUNIST ADVISORS, CESAR D E L G A D O BARRETO AND CARLOS V A S Q U E Z VELARDE, WHO ARE ALSO HIS SPEECH WRITERS AND MENTORS. [REDACTED] COMMENT: THE PRESS [REDACTED]

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HAS REPORTED THAT VASQUEZ WILL REPRESENT THE MINISTRY AT THE 26TH OF JULY CELEBRATIONS IN HAVANA.) THE ATMOSPHERE IN THE MINISTRY IS HEAVY WITH POLITICS AND ANTI-CAPITALIST, ESPECIALLY ANTI-AMERICAN CAPITALIST, FEELING. [REDACTED] COMMENT: THE KEY PERSONS INVOLVED ARE INTELLIGENT ENOUGH TO KNOW THAT THEY ARE ADVOCATING A COURSE WHICH WILL SERIOUSLY DISRUPT THE COMPANY'S OPERATIONS IN PERU BUT ARE MORE TAKEN UP WITH THE POWER STRUGGLE IN PERU AND THEIR OWN PROSPECTS THAN THEY ARE WITH SOUND ECONOMIC DECISIONS.)

5. TO HARASS THE COMPANY FERNANDEZ MALDONADO HAS NOW DIRECTED MINEROPERU TO CUT OFF ALL RELATIONS WITH CERRO SALES, WHICH HAS BEEN SERVING AS MINEROPERU'S AGENT IN SELLING CERRO'S PRODUCTION OVERSEAS. THE EXCUSE USED IS THAT CERRO IS SOME 6 MILLION DOLLARS BEHIND IN REMITTANCES TO MINEROPERU FOR PRODUCTION SOLD, BUT THE ACTUAL PURPOSE IS TO BRING PRESSURE ON CERRO. (SOURCE COMMENT: THE CHANGE IN THE MINISTRY'S ATTITUDE TOWARD CERRO HAS BEEN DRAMATIC; WHEREAS PREVIOUSLY THE COMPANY HAS DEALT WITH ON AN HONORABLE BASIS AS A WELL-INTENTIONED COMPANY GOOD FOR ITS UNDERTAKINGS, NOW, UNDER FERNANDEZ MALDONADO'S DIRECTIONS, THE OPERATIVE ASSUMPTION IS THAT THE COMPANY IS A CLASSIC EXPLOITING FIRM, DETERMINED TO WREST PERU'S RICHES FROM ITS OWNERS AND CHEAT

[REDACTED]

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THEM ON THE PRICE. GOVERNMENT-ORGANIZED PROPAGANDA IS NOW DEPICTING CERRO AS A HOSTILE, GRASPING AND SELF-CENTERED COMPANY CONTEMPTUOUS OF PERUVIAN LAW AND CUSTOM. THIS IS ALSO DESIGNED TO WEAR DOWN THE COMPANY'S WILL TO CONTEST ITS FATE. FERNANDEZ MALDONADO'S TACTICS PROVIDE FOR A FAIT ACCOMPLI PRESENTED TO THE COUNCIL OF MINISTERS WHICH PRESIDENT VELASCO WILL HAVE NO CHOICE BUT TO CONFIRM.)

6. VICTOR M I R O Q U E S A D A U R E T A, HEAD OF THE SPECIAL GOVERNMENT COMMISSION TO STUDY THE POSSIBILITY OF PURCHASING CERRO DE PASCO HOLDINGS, SAID THAT THE GOVERNMENT WOULD NOT RELEASE MONIES OWED TO CERRO FOR PROFIT WHICH THE COMPANY JUDGES ARE IN ARREARS AND THEY WILL HAVE TO BE SHOWN AS BLOCKED IN CERRO'S SEMI-ANNUAL FINANCIAL STATEMENT TO BE ISSUED IN NEW YORK CITY IN LATE JULY. [REDACTED] COMMENT: THIS ALSO IS HARASSMENT AND UNDERSCORES THE MINISTRY'S DETERMINATION NOT TO PERMIT CERRO TO EXTRACT ANY FUNDS PENDING THE ENFORCED SETTLEMENT. MIRO QUESADA IS ALSO DOWNPLAYING THE POSSIBILITY THAT CERRO'S MANAGERIAL AND ENGINEERING STAFF WILL NOT STAY WITH THE COMPANY IF IT IS TAKEN OVER. IN FACT, MANY PLAN TO DEPART FORTHWITH, LEAVING THE GOVERNMENT WITH A VIRTUALLY INOPERABLE MINING, TRANSPORT AND SALES [REDACTED]

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OPERATION.)

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STANDARD FORM NO. 64, 1-64, AND THE NEW YORK TIMES AND OTHERS

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CITE IDIRDD-315/07595-73

DIST 11 AUGUST 1973

COUNTRY : PERU

DOI : EARLY AUGUST 1973

SUBJECT : SCHEDULED TAKE-OVER OF CERRO DE PASCO HOLDINGS IN PERU

ACQ

SOURCE

SUMMARY: THE TAKE-OVER BY THE PERUVIAN GOVERNMENT OF THE PERUVIAN HOLDINGS OF THE CERRO DE PASCO CORPORATION WILL PROBABLY TAKE PLACE BETWEEN 15 AND 30 SEPTEMBER 1973. THE MINISTRY OF ENERGY AND MINES IS NOW CARRYING ON [REDACTED] NEGOTIATIONS WITH KEY PERSONNEL OF CERRO DE PASCO TO PERSUADE THEM TO CONTINUE IN THEIR POSTS AFTER THE TAKE-OVER. THE GOVERNMENT INTENDS TO CONDUCT NEGOTIATIONS WITH THE COMPANY BUT, IF IT WILL NOT GO ALONG WITH THE GOVERNMENT'S OFFER OF FROM 12 TO 14 MILLION DOLLARS, THE

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GOVERNMENT WILL CUT OFF NEGOTIATIONS AND SEIZE THE COMPANY'S HOLDINGS. END OF SUMMARY.

1. [REDACTED] COMMENT: IT WAS REPORTED [REDACTED]

[REDACTED] THAT GENERAL JORGE FERNANDEZ MALDONADO SOLARI, MINISTER OF ENERGY AND MINES, HAS THE APPROVAL OF THE COUNCIL OF MINISTERS TO BRING TO A HEAD THE ISSUE OF THE GOVERNMENT'S TAKING OVER THE PERUVIAN HOLDINGS OF THE CERRO DE PASCO CORPORATION PROBABLY BETWEEN 31 AUGUST AND 30 SEPTEMBER. SOURCE COMMENTED THAT, SINCE FERNANDEZ MALDONADO PLANNED TO ATTEND THE MEETING OF MINISTERS OF THE INTERGOVERNMENTAL COMMITTEE OF COPPER PRODUCING COUNTRIES (CIPEC) IN LUSAKA, ZAMBIA, FROM 8 TO 12 SEPTEMBER, IT WAS LIKELY THAT HE WOULD POSTPONE THE SHOWDOWN WITH CERRO DE PASCO UNTIL HIS RETURN.)

2. IN VIEW OF THE CANCELLATION BY ZAMBIA OF THE CIPEC MEETING AND THE FACT THAT FERNANDEZ MALDONADO WILL NOT BE GOING TO LUSAKA IN EARLY SEPTEMBER, THE TAKE-OVER OF CERRO DE PASCO CAN BE SPEEDED UP AND WILL PROBABLY BE COMPLETED BETWEEN 15 AND 30 SEPTEMBER. THE MINISTRY OF ENERGY AND MINES HAS BEEN INSTRUCTED TO PREPARE FOR THE TAKE-OVER OF CERRO DE PASCO BY THAT TIME. MINEROPERU IS NOW SETTING UP A COMPLETELY SEPARATE MARKETING [REDACTED]

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ORGANIZATION, WHEREAS MARKETING OF PERU'S ORES WAS DONE BEFORE THROUGH CERRO SALES.

3. FERNANDEZ MALDONADO CONTINUES TO SET HIS OWN COURSE UNDETERRED BY ADVICE FROM THOSE IN THE MINISTRY WHO FEEL THE TAKE-OVER OF CERRO DE PASCO COULD SET THE COUNTRY BACK FOR OR FIVE YEARS IN ITS ECONOMIC DEVELOPMENT. FERNANDEZ MALDONADO IS FOLLOWING THE ADVICE OF CESAR DELGADO BARRETO AND CARLOS VASQUEZ VELARDE, WHO ALSO ARE THE PRINCIPAL ADVISERS OF VICTOR MIRO QUESADA URETA, HEAD OF THE SPECIAL GOVERNMENT COMMISSION STUDYING THE POSSIBLE PURCHASE OF CERRO DE PASCO HOLDINGS. [REDACTED] COMMENT: THE EVALUATION OF CERRO DE PASCO'S HOLDINGS BY A COMBINATION OF AUDITING FIRMS LAST YEAR ARRIVED AT A SUM OF 10 TO 14 MILLION DOLLARS. BY CURRENT PRICES, JUDGED AS A GOING CONCERN, CERRO'S HOLDINGS ARE NOW WORTH AN ESTIMATED 50 MILLION DOLLARS IN VIEW OF THE RISE IN WORLD PRICES.)

DELGADO, AND VASQUEZ ARE ARGUING TO MIRO QUESADA AND FERNANDEZ MALDONADO THAT THE PERUVIAN GOVERNMENT SHOULD PAY "VIRTUALLY NOTHING" FOR CERRO'S HOLDINGS BECAUSE, THEY ALLEGEDLY THE COMPANY HAS ALREADY "RAPED THE COUNTRY" FOR FAR IN EXCESS OF ITS NET WORTH TODAY. [REDACTED] COMMENT: IT WAS REPORTED [REDACTED]

(Classification)

THAT DELGADO SAID

THAT SOME GOVERNMENT OFFICIALS ARE WILLING TO PAY 20 OR 30 MILLION DOLLARS MORE FOR THE COMPANY'S HOLDINGS TO AVOID PROBLEMS BUT OTHERS DO NOT WANT TO PAY MORE THAN THE MINIMUM.) THEY ARE BOTH IGNORANT OF, AND DOGMATICALLY UNINTERESTED IN, THE EFFECTS ABROAD OF SUCH AN ACT BY THE PERUVIAN GOVERNMENT AND THEY DISMISS POSSIBLE U.S. GOVERNMENT REACTION AS LIKELY TO BE WEAK ON THE ONE HAND AND USEFUL TO THE GOVERNMENT ON THE OTHER AS A NATIONALISTIC ISSUE WITH WHICH TO BUILD SUPPORT FOR THE REVOLUTION.

4. THE MINISTRY OF ENERGY AND MINES IS CURRENTLY NEGOTIATIONS [REDACTED] WITH KEY PERSONNEL OF CERRO DE PASCO, BOTH PERUVIAN AND FOREIGN, TO PERSUADE THEM TO STAY AFTER THE TAKE-OVER, GUARANTEEING THEM IN WRITING SALARY AND PERQUISITES FOR UP TO TWO YEARS. [REDACTED] COMMENT: THESE EFFORTS REVEAL THE MINISTRY'S FEARS OF HOW PRACTICAL IT WILL BE FOR IT TO RUN THE CORPORATION'S COMPLICATED MINING OPERATION ONCE THE TAKE-OVER IS A FACT ACCOMPLI. ACTUALLY, BETWEEN 600 AND 700 SENIOR PERSONNEL ARE INVOLVED, THE MAJORITY OF WHOM WILL PROBABLY LEAVE THE COMPANY BECAUSE OF DISTRUST OF THE PERUVIAN GOVERNMENT AS AN EMPLOYER AND BECAUSE THEY HAVE HIGHLY MARKETABLE SKILLS ELSEWHERE IN THE

[REDACTED]

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WORLD.)

5. THE GOVERNMENT INTENDS TO CONDUCT NEGOTIATIONS WITH OFFICIALS OF CERRO DE PASCO SOON BUT, IF THE COMPANY PROVES DIFFICULT AND IT BECOMES CLEAR THAT IT WILL NOT GO ALONG WITH THE GOVERNMENT'S 12 TO 14 MILLION DOLLAR OFFER, THE GOVERNMENT WILL ABRUPTLY CUT OFF NEGOTIATIONS AS FUTILE AND SEIZE THE COMPANY'S HOLDINGS. THIS WILL BE DONE BY THE PERUVIAN ARMY; PLANS TO DO SO ARE NOW BEING DRAWN UP BY THE MILITARY.

6. THE ONLY CAUTION THAT FERNANDEZ MALDONADO AND HIS LEFTIST ADVISERS ACCEPT IS THE POSSIBILITY THAT CURRENT NEGOTIATIONS FOR INVESTMENT FROM OVERSEAS IN MINING IN PERU WOULD BE AFFECTED FOR THE WORSE BY THIS STEP. THE LATE SEPTEMBER DATE PROVIDES FOR MOST OF THE CURRENT NEGOTIATIONS TO HAVE BEEN CONCLUDED, ESPECIALLY THAT FOR THE SOUTHERN PERU COPPER COMPANY. OTHERWISE, THERE ARE NO RESTRAINTS WHICH ARE ENTERING THEIR CALCULATIONS. [REDACTED] COMMENT? WHETHER THE COUNCIL OF MINISTERS AND PRESIDENT JUAN V E L A S C O ALVARADO WILL SEE MATTERS THE SAME WAY REMAINS TO BE SEEN, ESPECIALLY AFTER THE 12 AUGUST ANNOUNCEMENT OF NEGOTIATIONS BETWEEN THE PERUVIAN AND U.S. GOVERNMENTS ON A RANGE OF INVESTMENT PROBLEMS.

[REDACTED]

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(classification)

(dissem controls)

NONETHELESS, THE COUNCIL OF MINISTERS AS IN THE PAST IS SUBJECT TO NATIONALISTIC EMOTIONS WHEN A FOREIGN COMPANY'S HOLDINGS ARE INVOLVED, OVERRIDING THE MORE CAUTIONS OF ITS MEMBERS AND SIMPLY FACING THE MORE RESPONSIBLE OF THEM, SUCH AS GENERAL FRANCISCO MORALES BERMUDEZ, MINISTER OF ECONOMY AND FINANCE, WITH ORDERS TO CARRY OUT.)

7.



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CITE TDIR D3-315/37651-73

DIST 21 AUGUST 1973

DUPLICATE AND CORRECTED COPY

COUNTRY: PERU

DOI: MID-AUGUST 1973

SUBJECT: OPPOSITION OF THE MINISTER OF ECONOMY AND FINANCE TO PLANS
FOR THE NATIONALIZATION OF THE PERUVIAN HOLDINGS OF THE
CERRO DE PASCO CORPORATION

SCO:

SOURCE: SEE BELOW

1.

2. GENERAL FRANCISCO MORALES BERMUDEZ CERRUTTI,
MINISTER OF ECONOMY AND FINANCE, RECENTLY SAID
THAT HE CONSIDERS
THE PLANS FOR NATIONALIZING THE PERUVIAN HOLDINGS OF CERRO DE PASCO
CORPORATION AS PRESENTED TO THE COUNCIL OF MINISTERS TO BE UNACCEPTABLE.

FULL TEXT

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IN 007547

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(classification)

(control)

HE SAID THAT THE PLANS ARE OUT OF TUNE WITH PERU'S PROGRAM FOR FOREIGN INVESTMENT AND TREATMENT OF FOREIGN INVESTORS IN PERU. FOR THAT REASON, IF THE NATIONALIZATION OF CERRO DE PASCO IS CARRIED OUT AS PROPOSED BY MINISTER OF ENERGY AND MINES GENERAL JORGE FERNANDEZ MALDONADO SOLARI, HE SAID, HE WILL RESIGN. MORALES BERMUDEZ RECEIVED ASSURANCES OF SUPPORT FROM [REDACTED] IN HIS OPPOSITION TO THE NATIONALIZATION PLANS. [REDACTED] COMMENT: IT IS NOT KNOWN WHETHER OR NOT MORALES FERMUDEZ MADE THESE REMARKS BEFORE OR AFTER THE HIGH-LEVEL MEETING HELD AT THE MINISTRY OF ENERGY AND MINES ON 15 AUGUST TO DISCUSS THE TAKE-OVER OF CERRO DE PASCO'S HOLDINGS AS REPORTED [REDACTED] THAT MEETING, IN WHICH [REDACTED] REPORTEDLY TOOK PART, COULD HAVE BEEN A CONTENTIOUS ONE.)

3. [REDACTED]

4. FERNANDEZ MALDONADO IS SPEEDING UP PLANS FOR THE TAKE-OVER OF CERRO DE PASCO HOLDINGS SINCE HE NO LONGER WILL BE ABSENT FROM THE COUNTRY FOR THE MEETING OF MINISTERS OF THE INTERGOVERNMENTAL COMMITTEE OF COPPER PRODUCING COUNTRIES (CIPEC) FROM 8 TO 12 SEPTEMBER WHICH WAS CANCELLED. TIMING OF THE TAKE OVER [REDACTED]

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[REDACTED]
[REDACTED] (ultram controls)
[REDACTED]

HAS THEREFORE BEEN MOVED UP TO ABOUT 15 SEPT. [REDACTED] COMMENT: IT WAS
REPORTED [REDACTED] THAT FERNANDEZ MALDONADO
HAD APPROVAL FROM THE COUNCIL OF MINISTERS TO BRING THIS ISSUE TO A
HEAD BETWEEN 31 AUGUST AND 30 SEPTEMBER BUT IT WAS LIKELY A SHOWDOWN
WOULD BE DELAYED UNTIL AFTER HIS RETURN FROM THE CIPEC MEETING.)

5. THE MATTER OF THE FUTURE OF KEY FOREIGN TECHNICIANS AT CERRO
DE PASCO, PREVIOUSLY DOWNPLAYED, IS ONE OF THE ISSUES FERNANDEZ
MALDONADO HAS NOW FOCUSED ON. THESE TECHNICIANS ARE MAINLY AMERICANS
AND CANADIANS. FERNANDEZ MALDONADO PLANS TO HOLD A DINNER ON 23 AUG.
FOR THE PRINCIPAL TECHNICIANS IN ORDER TO CAJOLE THEM INTO AGREEING
TO REMAIN WITH CERRO DE PASCO ONCE IT IS TAKEN OVER BY THE GOVERNMENT.
HE WILL OFFER THEM THE SAME COMPENSATION AND BENEFITS THEY ARE NOW
RECEIVING. [REDACTED] COMMENT: [REDACTED]
VICTOR M I R O Q U E S A D A URRETA, HEAD OF THE SPECIAL
GOVERNMENT COMMISSION TO STUDY THE POSSIBILITY OF PURCHASING CERRO
DE PASCO HOLDINGS, WAS DOWNPLAYING THE POSSIBILITY THAT CERRO
MANAGERIAL AND ENGINEERING STAFF WOULD NOT STAY WITH THE COMPANY IF
IT WERE TAKEN OVER BY THE GOVERNMENT. SOURCE REPORTED THAT
MANY OF THESE KEY PERSONNEL PLANNED TO DEPART IMMEDIATELY, LEAVING
THE GOVERNMENT WITH A VIRTUALLY INOPERABLE MINING, TRANSPORT AND SALES
[REDACTED]

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(dissem controls)

OPERATION [REDACTED] COMMENT:

6. IT SHOULD BE BORNE IN MIND THAT THE INFORMATION IN PARAGRAPH 4 REPRESENTS THE THINKING WITHIN THE MINSITRY OF ENERGY AND MINES, WHERE IT IS BELIEVED THAT FERNANDEZ MALDONADO WILL OBTAIN APPROVAL FROM THE COUNCIL OF MINISTER FOR HIS PLANS. FROM THE INFORMATION IN PARAGRAPH 2 IT IS APPARENT THAT THIS APPROVAL MAY NOT BE AS FORTH-COMING AS IS EXPECTED WITHIN THE MINISTRY. PATHER THAN RISK THE RESIGNATION OF MORALES BERMUDEZ, THERE MAY BE A MODIFICATION OR A COMPROMISE WITH RESPECT TO THE MINISTRY OF MINES' PLANS FOR THE NATIONALIZATION OF CERRO DE PASCO'S HOLDINGS.)

7. [REDACTED]



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CITE TDFIR DB 315/08275-73

DIST 31 AUGUST 1973

PERU
6/50

COUNTRY: PERU

DOI: LATE AUGUST 1973

SUBJECT: OPPOSITION WITHIN THE GOVERNMENT TO NATIONALIZA-
TION OF CERRO DE PASCO HOLDINGS WITHOUT ADEQUATE
COMPENSATION

ACQ:

SOURCE:

1. [REDACTED] ADVISOR TO THE
MINISTER OF ENERGY AND MINES, COMMENTED ON 30 AUGUST THAT THE
PERUVIAN GOVERNMENT WANTS TO TAKE OVER THE HOLDINGS OF THE CERRO
DE PASCO CORPORATION AT ALMOST ANY COST JUST AS PRESIDENT JUAN
V E P A S C O ALVARADO SAID DURING HIS 29 AUGUST PRESS CONFERENCE.
OPPOSITION TO THE NATIONALIZATION OF CERRO DE PASCO'S HOLDINGS
WITHOUT JUST COMPENSATION, HOWEVER, IS STRONG AND UNITED,

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[REDACTED] AND COMES FROM TECHNICAL ADVISORS OF THE ADVISORY COUNCIL TO THE PRESIDENT (COAP) AND THE NATIONAL INSTITUTE OF PLANNING, AND FROM THE JOINT COMMAND OF THE ARMED FORCES, AIR FORCE AND NAVY OFFICERS.

2. THE OPPOSITION INCLUDES MANY CABINET MINISTERS, [REDACTED] AND EVEN PRESIDENT VELASCO FEELS THAT EVERY EFFORT MUST BE MADE TO AVOID A CONFRONTATION AND A REPETITION OF THE INTERNATIONAL PETROLEUM COMPANY (IPC) CASE, NOT BECAUSE HE BELIEVES THE REVOLUTION DOES NOT HAVE THE RIGHT TO USE FORCE BUT BECAUSE SO MANY QUALIFIED PERSONS SAY CONFISCATION WITHOUT ADEQUATE PAYMENT WOULD HURT THE INVESTMENT CLIMATE. THE CONCERN ABOUT FOREIGN INVESTMENT IS NOT LIMITED TO THAT OF THE UNITED STATES BUT INCLUDES THAT OF EUROPE, JAPAN AND THE SOCIALIST BLOC COUNTRIES WHO, IT IS FEARED, MIGHT WITHDRAW FROM IMPORTANT PROJECTS JUST WHEN PERU NEEDS THEM MOST. [REDACTED] COMMENT: IT WAS REPORTED [REDACTED]

[REDACTED] IT WOULD BE MORE PRACTICAL FOR THE GOVERNMENT TO COMPENSATE CERRO DE PASCO UP TO 30 MILLION DOLLARS FOR ITS HOLDINGS THAN TO EXTEND A CONFRONTATION WHICH WOULD EVENTUALLY COST PER MORE FROM AN ECONOMIC POINT OF VIEW.) [REDACTED]

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3. [REDACTED] BELIEVES THAT THE TAKE-OVER OF CERRO DE PASCO'S HOLDINGS IS STILL UNDECIDED AND CAN GO EITHER WAY. HE HOPES THAT VELASCO WILL NOT GIVE IN TO THE OPPOSITION BUT IS SOMEWHAT PESSIMISTIC BECAUSE OF THE APPARENT STRENGTH OF THE NAVY AND AIR FORCE BLOC FORMED "TO STOP THE PROGRESS OF THE REVOLUTION." HE MENTIONED THE CASE OF "EL COMERCIO" AND SAID THAT, ALTHOUGH PRESIDENT VELASCO CALLED IT STRICTLY A "LABOR" MATTER, EVERYONE KNOWS IT WAS MUCH MORE AND THAT THE SAME PEOPLE WHO ARE FIGHTING THE EXPROPRIATION OF CERRO DE PASCO'S HOLDINGS HAD FOUGHT THE TAKE-OVER OF "EL COMERCIO" AND HAD WON.

4. [REDACTED] COMMENT: [REDACTED]

SAID

THAT PRIME MINISTER AND MINISTER OF WAR GENERAL EDGARDO MERCADO JARRIN HAD RECENTLY TOLD AN ARMY OFFICER THAT PERU DOES NOT WANT TO PICK A NEW QUARREL WITH THE UNITED STATES AT THIS TIME. HE ALSO SAID THAT THE MISSION OF JAMES GREENE, U.S. PRESIDENTIAL EMISSARY WHO WAS IN PERU IN MID-AUGUST TO DISCUSS U.S. INVESTMENTS IN PERU, WAS BY NO MEANS A FAILURE AND THE TALKS WOULD CONTINUE.)

[REDACTED]

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(classification)

(dissem controls)

5. [REDACTED] SAID THAT THERE ALSO IS THE PROBLEM OF PERSONNEL REMAINING AT CERRO DE PASCO AND HOW TO MAKE CERRO WORK AFTER IT IS TAKEN OVER. [REDACTED] HIMSELF THINKS THEY CAN DO IT BUT THE OPPOSITION DOES NOT. [REDACTED] COMMENT: [REDACTED]
[REDACTED] THE POLISH COMMERCIAL ATTACHE IN PERU SAID THAT POLAND IS READY TO SEND 150 MINING EXPERTS TO PERU IN CASE CERRO DE PASCO IS NATIONALIZED AND PERUVIAN AND FOREIGN TECHNICIANS AND MANAGEMENT LEAVE AS IS EXPECTED. IT WAS REPORTED [REDACTED]

[REDACTED] THAT THE GOVERNMENT FELT IT IMPERATIVE THAT FOREIGN TECHNICAL PERSONNEL REMAIN DURING THE FIRST MONTHS AFTER THE TAKE-OVER)

6. [REDACTED]



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CITE TDFR - 544/07-72-73

DIST 12 SEPTEMBER 1973

COUNTRY: PERU

DATE: AUGUST AND SEPTEMBER 1973

SUBJECT: DISCUSSION BY MINISTRY OF ENERGY AND MINES OFFICIALS
OF POSSIBLE COURSES OF ACTION WITH REGARD TO THE
CERRO DE PASCO CORPORATION

NOTE:

SOURCE:

SUMMARY. POSSIBLE COURSES OF ACTION REGARDING THE PERUVIAN
HOLDING OF THE CERRO DE PASCO CORPORATION WERE CONSIDERED

[REDACTED] BY OFFICIALS OF THE MINISTRY
OF ENERGY AND MINES [REDACTED]

THESE WERE: OUTRIGHT CONFISCATION OF CERRO'S HOLDINGS, EXPROPRI-
ATION WITH SOME TOKEN COMPENSATION. OR FORMATION OF A MIXED

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(classification)

(dissem controls)

COMPANY WITH THE STATE HOLDING MAJORITY CONTROL. THE GROUP REJECTED THE IDEA OF CONFISCATION AND FOUND THE IDEA OF EXPROPRIATION THE MOST ATTRACTIVE OF THE THREE PROPOSALS. HOWEVER, MODERATES IN THE GROUP STILL PUSHED THE MIXED COMPANY CONCEPT. END OF SUMMARY.

1. [REDACTED] THE MANNER OF TAKING OVER THE CERRO DE PASCO CORPORATION'S HOLDINGS IN PERU WAS ^{DISCUSSED} BY OFFICIALS OF THE MINISTRY OF ENERGY AND MINES [REDACTED]

[REDACTED] GENERAL JORGE FERNANDEZ MALDONADO SOLARI, MINISTER OF ENERGY AND MINES, ATTENDED [REDACTED] UNTIL [REDACTED] HE WAS SUDDENLY CALLED BACK TO LIMA FOR TALKS WITH PRESIDENT JUAN VELASCO ALVARADO REGARDING THE CERRO DE PASCO PROBLEM.

2. THREE POSSIBLE COURSES OF ACTION WERE DISCUSSED [REDACTED] [REDACTED] CONFISCATION OF CERRO'S HOLDINGS, EXPROPRIATION WITH SOME TOKEN COMPENSATION BASED ON THE GOVERNMENT'S VALUATION OF THE COMPANY'S HOLDINGS, OR FORMATION OF A MIXED COMPANY WITH THE STATE HOLDING MAJORITY CONTROL AND FAIR COMPENSATION BEING GIVEN THE COMPANY FOR ANY HOLDINGS SEIZED OR "CONVERTED" BY THE STATE. THE GROUP REJECTED THE IDEA OF OUTRIGHT CONFISCATION [REDACTED]

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[REDACTED] (classification) [REDACTED] (dissem controls)

BECAUSE, THEY SAID, THE EXTREME RIGHT-WING ELEMENTS COULD USE IT TO RUIN PERU'S IMAGE ABROAD AS WELL AS AT HOME AND TO EMBARRASS THE REVOLUTIONARY GOVERNMENT. AT THE SAME TIME, CONFISCATION WOULD GIVE THE EXTREME LEFT THE OPENING IT IS LOOKING FOR TO RADICALIZE THE REVOLUTIONARY PROCESS EVEN FURTHER AND PUSH THE GOVERNMENT FASTER TO THE LEFT THAN IT WANTS TO GO.

3. THE MOST ATTRACTIVE OF THE THREE ALTERNATIVES TO THE GROUP WAS THAT OF EXPROPRIATION. THE GROUP ORDERED THE COMPLETION OF THE VALUATION OF CERRO'S HOLDINGS AS SOON AS POSSIBLE AND ASKED THAT IT BE DONE IN THE SAME WAY AND UNDER THE SAME GUIDELINES AS HAS DONE FOR THE CASE OF THE INTERNATIONAL PETROLEUM COMPANY (IPC).

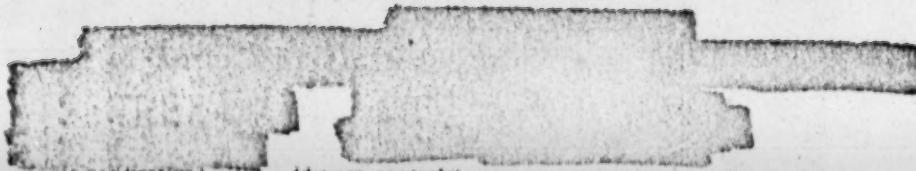
4. SOME MODERATE MEMBERS OF THE GROUP CONTINUED TO PUSH FOR THE MIXED COMPANY CONCEPT AS THE BEST COURSE OF ACTION PROVIDED THE COMPANY WOULD GO ALONG WITH IT. THIS SOLUTION, THEY ARGUED, WOULD GIVE THE STATE THE DESIRED CONTROL OF THE MINING SECTOR BUT WITHOUT THROWING THE COMPLETE BURDEN OF ADMINISTERING CERRO ON THE STATE ALL AT ONE TIME. IN ADDITION THE GOVERNMENT COULD GRADUALLY PREPARE TO NATIONALIZE CERRO AND ALL MINING COMPANIES FULLY AFTER SEVERAL YEARS OF EXPERIENCE

[REDACTED]

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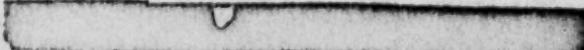
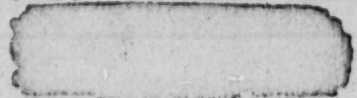
(classification)

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WITH THE MIXED COMPANY CONCEPT. IT WOULD ALSO GIVE THEM MORE TIME TO DEVELOP TRAINED PERUVIAN MANAGERS AND TECHNICIANS FOR SUCH AN EVENTUAL TOTAL TAKEOVER.

5. MINISTRY OF ENERGY AND MINES ADVISORS AND TECHNICIANS ARE WORKING HURRIEDLY TO ACCOMPLISH THE GOALS SET BY "PLAN SINO" (DESTINY), THE PROJECT TO TAKE OVER CERRO'S HOLDINGS BY EXPROPRIATION OR BY FORMATION OF A MIXED COMPANY, AND 9 OCTOBER IS BEING MENTIONED AS THE SUITABLE DATE FOR FINAL SETTLEMENT OF THE CERRO DE PASCO PROBLEM. THE GROUP WHICH HAD MET IN ANCON LEFT LIMA ON 11 SEPTEMBER FOR CERRO DE PASCO TO PREPARE THE WORKERS AND THE PEOPLE OF CERRO DE PASCO FOR THE TRANSFER OF THE COMPANY'S HOLDINGS TO THE STATE.

6. IN MID-AUGUST THERE HAD BEEN STRONG SUPPORT AMONG ADVISORS OF THE MINISTRY OF ENERGY AND MINES FOR THE ESTABLISHMENT OF A MIXED COMPANY. IT WAS BASED ON TWO STRONG UNDERLYING FACTORS:

A. A SPECIAL ECONOMIC STUDY 
CLEARLY SHOWED THAT THE GOVERNMENT IS NOT CAPABLE OF COMPLETELY ASSUMING ALL CERRO DE PASCO HOLDINGS, ADMINISTRATIVE, SALES LABOR PROBLEMS AT THE SAME TIME. SO MUCH MONEY, MANPOWER


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[REDACTED]

AND PLANNING WOULD HAVE TO GO INTO A COMPLETE TAKEOVER THAT OTHER GOVERNMENT PROJECTS WOULD SUFFER, INCLUDING SOME WITHIN THE MINISTRY OF ENERGY AND MINES ITSELF. FOR THESE REASONS IT WAS FELT THAT OUTRIGHT NATIONALIZATION OF CERRO'S HOLDINGS WOULD PROVE TOO COSTLY.

B. THE LABOR FACTOR WOULD BE A PROBLEM SINCE THE MINISTRY HAS LITTLE EXPERIENCE IN THIS FIELD AND DOES NOT WANT TO GET INVOLVED IN BEING THE STATE ENTITY WHICH HAS TO CONFRONT THE ANGRY MINERS. THE MINISTRY HAS BEEN TRYING TO BALANCE THE 12 COMMUNIST UNIONS AGAINST THE TWO UNIONS CONTROLLED BY THE AMERICAN POPULAR REVOLUTIONARY ALLIANCE (APRA) AT CERRO DE PASCO BY CALLING THE UNION LEADERS TO LIMA AND BY NOT DEALING AT THE LOWER LEVELS. [REDACTED] COMMENT: [REDACTED]

[REDACTED] THE GOVERNMENT HAS BEEN CLOSELY MONITORING ACTIVITIES OF THE UNIONS AT CERRO DE PASCO.)

7. THE FEELING IS THAT SOME KIND OF AGREEMENT OR ACCOMMODATION WILL BE REACHED WITH CERRO TO AVOID THE USE OF TROOPS; HOWEVER, THE LATTER EVENTUALITY IS NOT COMPLETELY DISCOUNTED AND WILL BE APPLIED IF THE GOVERNMENT FINDS THERE IS NO OTHER RECOURSE.

[REDACTED]

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(classification)

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8.

COMMENT:

ON 3 SEPTEMBER THAT

GENERAL FRANCISCO M O R A L E S B E R M U D E Z CERRUTTI,
MINISTER OF ECONOMY AND FINANCE, SAID THAT THE PROBLEM OF CERRO
DE PASCO WOULD BE SETTLED IN SEPTEMBER OR OCTOBER AT THE LATEST.
MORALES BERMUDEZ SAID THAT HIS MINISTRY HAD RECOMMENDED THE
PAYMENT OF 40 MILLION DOLLARS FOR CERRO'S HOLDINGS BUT THAT
THE COUNCIL OF MINISTERS WAS DIVIDED BETWEEN THOSE WHO DID NOT
WANT TO PAY ANYTHING FOR CERRO'S HOLDINGS AND THOSE WHO BELIEVED
THAT CERRO SHOULD BE PAID BUT NOT THE AMOUNT ASKED BY THE
COMPANY. IN THE MEANTIME, MORALES BERMUDEZ SAID, IN SPITE
OF PRESSURE FROM CERRO DE PASCO, THE COMPANY WILL NOT RECEIVE

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[REDACTED]

(classification)

(dissem controls)

AUTHORIZATION TO CONVERT ITS PROFITS AND FEES WHICH IT HAS
NOW IN SOLES INTO DOLLARS IN ORDER TO TAKE THEM OUT OF THE COUNTRY.)

9. [REDACTED]

[REDACTED]

[REDACTED]

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CITE XROXTDFIRDB-315/09923-73

DIST 17 OCTOBER 1973

MID-OCTOBER 1973

DEVELOPMENTS IN THE BANCO DE CREDITO
SUIT AGAINST CERRO DE PASCO CORPORATION

FIELD NO.

1. [REDACTED] COMMENT: LIMA EMBASSY TELEGRAM 7353 OF

4 OCTOBER OUTLINED THE PROBLEMS CAUSED THE BANCO DE CREDITO (BDC)
OF LIMA IN PARTICULAR AND PERUVIAN BANKING CIRCLES IN GENERAL
BY THE ACTION TAKEN BY CERRO DE PASCO CORPORATION IN STOPPING
PAYMENT ON A \$3.5 MILLION REMITTANCE DUE TO THE PERUVIAN GOVERN-
MENT FOR ORE SALES AND GUARANTEED BY THE BDC.)

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2. LIZARDO A L Z A M O R R A PORRAS AND PAOLO CUCURELLI, PRESIDENT AND GENERAL MANAGER RESPECTIVELY OF THE BDC, RETURNED TO LIMA FROM NEW YORK CITY ON 5 OCTOBER. THEY SAID THAT DESPITE STRENUOUS EFFORTS ON THEIR PART TO GET A HEARING ON THE EFFECTS IN LIMA OF CERRO DE PASCO CORPORATION'S ACTION, THEY WERE TOLD FLATLY BY CERRO OFFICIALS THAT THERE WOULD BE NO MORE DOLLAR REMITTANCES AS ADDITIONAL AMOUNTS BECAME DUE. SINCE BDC IS THE GUARANTOR FOR A TOTAL OF \$7 MILLION FOR ORE PAYMENTS TO THE PERUVIAN GOVERNMENT, AND PERUVIAN LAW PROVIDES FOR A 50-PERCENT PENALTY FOR CURRENCY EXCHANGE VIOLATIONS, BDC COULD BE LIABLE TO THE BANCO CENTRAL FOR A TOTAL OF \$10.5 MILLION, WHICH IS ONE-THIRD OF BDC'S TOTAL RESERVES. CUCURELLI, WHO IS THE CHIEF OPERATING OFFICER OF BDC, IS ALSO LIABLE TO A JAIL TERM OF ONE TO FIVE YEARS, AS IS MANUEL L L O S A, THE CERRO MANAGER IN LIMA. THE PERUVIAN GOVERNMENT COULD PROBABLY MAKE A LEGAL CASE OF CURRENCY VIOLATION AS A PRETEXT, IF IT WISHED TO USE THIS AS A MEANS OF TAKING OVER THE BDC. IN ANY EVENT, PAYMENT OF THE \$10.5 MILLION WOULD ENDANGER THE BANK'S POSITION.

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[REDACTED]

[REDACTED]

(dissem controls)

2. A VICE PRESIDENT OF THE CHEMICAL CORN EXCHANGE BANK (CHEMICO) IS ARRIVING IN LIMA TO HEAD OFF BDC'S SUIT AGAINST CHEMICO FOR THAT INSTITUTION'S ROLE IN THE STOP PAYMENT ON THE \$3.5 MILLION. CERRO HAS WRITTEN A LETTER TO BDC ACKNOWLEDGING THAT CERRO AND NOT BDC IS LIABLE TO THE PERUVIAN GOVERNMENT FOR \$7 MILLION, BUT ADDING THAT PAYMENT IS TO BE DELAYED INDEFINITELY OWING TO 'FORCE MAJEURE.'

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

3. [REDACTED]

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192330Z

FROM: BROMLEY SMITH
TO : WALT ROSTOW
INFO: DIR CIA HELMS
CITE: CAP67169

~~SECRET~~

SUBJECT: CIA DAILY REPORT ON SECURITY SITUATION IN URUGUAY

20 MARCH 1967

1.

2. IN THE MEANTIME, THE COMMUNIST PARTY'S PLAN FOR ACHIEVING EXTREMIST COORDINATION ON ANTI-SUMMIT ACTIVITIES IS SUCCEEDING AND THE PARTY HAS DECIDED TO INTENSIFY SIGNIFICANTLY ITS PROPAGANDA ACTIVITY AFTER EASTER WEEK. BEGINNING ON 27 MARCH, THIRTY OR FORTY CARS, CAPABLE OF SUPPORTING THIRTY PROPAGANDISTS EACH, WILL TRY TO CANVAS MONTEVIDEO NIGHTLY DISTRIBUTING PROPAGANDA. THE COMMUNIST LEADER OF THE TRANSPORT FEDERATION HAS STATED THAT HIS ORGANIZATION WILL JOIN THE LABOR MOVEMENT IN A 24 HOUR GENERAL STRIKE (NO DATE GIVEN AS YET) AND THE COMMUNIST DOMINATED LABOR CONFEDERATION HAS PROMISED TO ORGANIZE STRIKES AND SLOWDOWN IN EVERY MONTEVIDEO FACTORY. ON 6 APRIL THE COMMUNIST PARTY'S YOUTH ORGANIZATION WILL BEGIN A MARCH FROM THE UNIVERSITY TO PUNTA DEL ESTE AND THE STUDENTS AND THE LABOR CONFEDERATION WILL JOINTLY SPONSOR A "CONFERENCE OF SOLIDARITY WITH PEOPLES IN STRUGGLE" DURING STRUGGLE WEEK 10-16 APRIL.

3. ALSO DURING STRUGGLE WEEK, THE PARTY HOPES TO ORGANIZE ANTI-SUMMIT DEMONSTRATIONS AND STUDENT STRIKES IN SECONDARY SCHOOLS. IN ADDITION IT HAS PLANS TO HALT ALL PERFORMANCES IN MONTEVIDEO'S 20 THEATERS FOR SEVERAL MINUTES DURING WHICH ACTORS WILL READ PREPARED ANTI-SUMMIT STATEMENTS. THE PARTY GUIDES OR CONTROLS AN IMPORTANT SECONDARY TEACHERS'S AND THEATRICAL UNION AND ITS PLANS STAND A GOOD CHANCE OF BEING AT LEAST PARTIALLY IMPLEMENTED.

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GPS: 350 IMI 350

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FROM BROMLEY SMITH
TO WALT ROSTOW
INFO DIR CIA HELMS
CITE CAP67175

~~SECRET~~
SUBJECT: CIA DAILY REPORT ON SECURITY SITUATION IN URUGUAY

1. THE US EMBASSY IN MONTEVIDEO REPORTS THAT THERE IS AN INCREASED AWARENESS AMONG URUGUAYANS OF THE NEED TO COUNTERACT COMMUNIST AGITATION DIRECTED AGAINST THE SUMMIT MEETING. THERE IS, FOR EXAMPLE, SERIOUS DISCUSSION WITHIN THE GOVERNMENT ON THE ADVISABILITY OF CALLING IN TOP COMMUNIST LEADERS AND WARNING THEM AGAINST DISRUPTIVE ACTIVITIES. THERE IS ALSO THOUGHT BEING GIVEN TO BRINGING TO TP ATTENTION OF SOVIET EMBASSY OFFICIALS THE HARMFUL EFFECT THAT COMMUNIST-INCITED DISTURBANCES MIGHT HAVE ON URUGUAYAN-USSR RELATIONS. THE GOVERNMENT PLANS TO CLOSE OFF THE MONTEVIDEO AIRPORT DURING THE ARRIVAL OF CHIEFS OF STATE, WITH THE CROWD AT THE AIRPORT TO BE "SELECTED."

2. URUGUAYAN PRESS COVERAGE OF THE SUMMIT MEETING IS BECOMING INCREASINGLY FAVORABLE. THE RESPONSIBLE PRESS IS EXPANDING ITS COVERAGE OF ALL ASPECTS OF THE SUMMIT, INCLUDING REPORTING ON THE ACTIONS BEING TAKEN TO PREPARE FOR A SUCCESSFUL MEETING.

3. FORMER BRAZILIAN PRESIDENT JOAO GOULART HAS CHANGED HIS RESIDENCE FROM PUNTA DEL ESTE TO HIS RANCH IN NORTHERN URUGUAY. THIS DECISION BY GOULART, WHO HAS BEEN EXILED IN URUGUAY SINCE HIS OUSTER BY THE ANTI-COMMUNIST REVOLUTION OF MARCH 1964, REMOVES A POTENTIAL SECURITY PROBLEM FROM THE IMMEDIATE AREA OF THE SUMMIT MEETING SITE.

DTG: 202222Z MAR 1967

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Declassified by State letter
Date 11/29/79

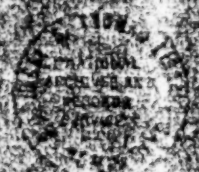
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CENTRAL INTELLIGENCE AGENCY

THE VENEZUELAN ELECTIONS OF
14 DECEMBER 1947



ORE 65

5 January 1948

Copy No. 1

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ORE 65

5 January 1948

Copy No. 1

THE VENEZUELAN ELECTIONS OF 14 DECEMBER 1947

SUMMARY

The economic and social reform program of the Acción Democrática, the implementation of which was begun under the Betancourt provisional Junta, was approved by the Venezuelan electorate on 14 December 1947 in the first truly democratic national election in the country's history. The overwhelming victory of the Acción Democrática, which gave it the presidency and control of both houses of Congress, not only assures a progressive and pro-US government but continues in power an active non-Communist party which can be counted on to obstruct the development of a strong Communist movement.

Note: This paper has the concurrence of the intelligence organizations of the Departments of State, the Air Force and the Navy. The dissent of the Department of the Army is set forth in Enclosure "A".

THE VENEZUELAN ELECTIONS OF 14 DECEMBER 1947

The elections held in Venezuela on 14 December 1947 reflect the character of the revolution that occurred in that country in October 1945, and confirm the view that the Venezuelan Government is today, for the first time, democratic both in form and in operation.

During the two-year interval since the revolution, Venezuela has been governed by a Junta headed by a political reformer named Rómulo Betancourt. On coming to power, this Junta instituted a program of economic and social reform without precedent in Venezuela's history. At the same time an intensified effort was made to win wider popular support (a) as a defense against counter-revolutionary movements through a period of "consolidation," and (b) to prepare the way for democratic elections under a new liberal constitutional system. The 14 December elections place the stamp of unmistakable popular approval on the course the Junta has followed, and leave the Acción Democrática in complete mastery of the Venezuelan political scene.

The democratic character of the present Venezuelan regime is indicated by (a) the decisive popular vote of confidence it received in the 14 December elections, (b) the social and economic policies to which the new Rómulo Gallegos government stands committed as the successor of the Junta, (c) the character of the regime's electoral system, as revealed both by the new suffrage legislation and the peaceful and fair manner in which the 14 December elections were conducted.

Three of Venezuela's four major parties ran presidential candidates in the recent election, and all four offered candidates for both houses of Congress. On the basis of approximately nine-tenths of the total vote (the other tenth is still to be counted), the electoral verdict stands as follows:

	Presidential ¹	Congressional
Acción Democrática	831,087	791,067
COPEI	261,753	200,777
Communist	35,716	43,148
	<hr/>	<hr/>
	1,128,556	1,034,992

Under the Venezuelan system of proportional representation it is expected that the composition of the houses of Congress will be:

	Senate	House
Acción Democrática	38	85
COPEI	6	20
Communists	1	4
Unión Republicana Democrática	1	4

¹ Completed count of votes cast for presidential candidates is: Gallegos (Acción Democrática) 831,087; Betancourt (COPEI) 261,753; and Méndez (Communist) 35,716. Completed count for congressional candidates is: Gallegos 791,067; Betancourt 200,777; Méndez 43,148; and an unaffiliated candidate 4,000.

The new Acción Democrática president, Rómulo Gallegos, will accordingly be able to count on firm congressional support for his legislative program.

The social and economic progressivism of the revolutionary Junta (to a continuation of which the newly elected Government is firmly committed) has been clearly demonstrated. Acción Democrática's leaders, out of an avowed determination to make AD a "popular" party, have deliberately sought, and won, support from all segments of the population. AD is not, therefore, a strictly working-class party, but rather a coalition of those groups that are seeking to promote the industrialization of the country, extensive land reforms, better standards of living, health measures and cultural opportunities for the people; and the establishment of a tradition of democratic processes. The Junta's accomplishments in education, housing, in extension of the trade-union movement, in improving working conditions in the country's industrial concerns, in basing taxation on ability to pay, in agrarian reform, and in the promotion of agricultural and pastoral production, attest to the progressive trend in Venezuelan public policy.

Because of post-revolutionary changes in Venezuela's electoral law and because of the impartial manner in which the Junta conducted the electoral campaign and the voting, the 14 December elections were Venezuela's first truly democratic national elections. This is evidenced by (a) the unprecedentedly large number of persons who cast their votes (Venezuela now has, to all intents and purposes, universal adult suffrage, and the final official count will almost certainly show that between one million and one and a quarter million persons voted, out of a population officially estimated at approximately 4,200,000) and (b) the poll involved, for the first time, direct election of all important national officials. Before the revolution, the electoral process had consisted of a series of indirect elections under which the voters elected the city councils; the councils elected the state legislatures; the state legislatures elected the Congressmen, and Congress selected the President. The December elections were, moreover, held without violence and, according to foreign and domestic observers alike, with exemplary honesty.

Acción Democrática's policies, and its avowed political philosophy as well, look to a rapid advance in Venezuela toward political, economic, and social equality; and its enemies, especially among the elements that governed the country in the past, miss no opportunity to identify it as a "radical" party and as a threat to the status quo. Some go still further, and describe it as a disguised Communist party; but all the evidence available points to the conclusion that (a) it is not only non-Communist but anti-Communist, (b) it is so regarded by the Communists themselves, and (c) it has gone out of its way to alienate any Communist support. Notwithstanding the Acción Democrática's anti-Communist attitude, the Communists will in all probability refrain from excessive or militant opposition since they are in agreement with many of the AD policies and since they reason that any alternative to AD might well be more anti-Communist and might seek to suppress the Communist Party or at least to curtail its activities.

The Acción Democrática does not deserve the Communist label its enemies have sought to fix on it. In fact, the great popular support won by the party in the

December elections is another indication that, in the special conditions of Latin American politics, an active non-Communist progressive party constitutes one of the best guarantees against a strong Communist movement. In foreign policy the AD is pro-US and anti-USSR.

ENCLOSURE "A"

DISSENT OF THE INTELLIGENCE DIVISION
DEPARTMENT OF THE ARMY

The Intelligence Division, Department of the Army, does not believe that Acción Democrática is at present an active non-communist party "which can be counted on to obstruct the development of a strong Communist movement." It is believed that Acción Democrática may cooperate with the Communists in the future if it seems expedient, as it has done in the past. It is not believed that the present Junta is democratic in operation nor that the 14 December elections place the stamp of "unmistakable popular approval" on the actions of Junta. It is the opinion of the Intelligence Division that the Junta has done little actually in the way of social and economic reform except on paper. It appears to the Intelligence Division that the nationalism of Acción Democrática represents a potential danger to United States interests in Venezuelan oil and that their present temperate pro-United States policy represents expediency.

CENTRAL INTELLIGENCE AGENCY

**VULNERABILITY TO SABOTAGE OF
PETROLEUM INSTALLATIONS IN
VENEZUELA, ARUBA, AND CURACAO**

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Published on

14 MAY 1948

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OF THE UNITED STATES

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**VULNERABILITY TO SABOTAGE OF PETROLEUM INSTALLATIONS
IN VENEZUELA, ARUBA, AND CURACAO**

SUMMARY

Oil wells in Venezuela and refineries on the adjacent Netherlands West Indies islands of Aruba and Curaçao offer one of the most remunerative targets for industrial sabotage of the Western Hemisphere. Venezuela in 1947 produced 80 percent of all Western Hemisphere oil excluding the US, and 60 percent of Venezuelan production was refined at Aruba and Curaçao. Political conditions are generally favorable in both areas, but both areas have particular points of vulnerability to sabotage, especially by trained agents. By crippling either production or refining in these areas, or by impairing the utility of the specialized tanker fleet which transports the oil from the wells to the refineries, such agents could seriously affect US capacity either to prepare for or to wage war. Protection against such sabotage would require precautions (cooperatively taken by the companies concerned, the local governments, and the US government) at least as comprehensive as those taken under the emergency status of 1941-1945.

Note: The information in this report is as of 23 April 1948.

The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

PRESIDENT

VULNERABILITY TO SABOTAGE OF PETROLEUM INSTALLATIONS
IN VENEZUELA, ARUBA, AND CURACAO

In 1947 Venezuelan crude oil production averaged 1,191,000 barrels per day. While this is equivalent to only slightly more than one-fifth of the US production, it is about 80 percent of all Western Hemisphere production outside of the US. Two-thirds of available Venezuelan exported crude oil is refined on the adjacent Netherlands West Indies islands of Aruba and Curaçao. (Venezuelan refining capacity is only 116,000 barrels per day.)

Local political situations both in Venezuela and the Dutch islands are, in general, favorable for the continuance of operations, but both production in Venezuela and refining on the islands are vulnerable to sabotage by trained agents. Together or separately these installations constitute one of the most remunerative targets in the Western Hemisphere. If the fields are shut down, the refineries are of little value, as there is no alternative comparable source of crude. There is at present no additional refining capacity that could be used in place of the refineries on Aruba and Curaçao. Furthermore, tankers now used to transport crude from Lake Maracaibo to the refineries cannot make ocean voyages, nor can ocean-going tankers cross the bar into Lake Maracaibo. Crippling of these wells or refineries would be a serious blow to US capacity either to prepare for or to wage war.

The USSR presumably has plans against this area, and it is possible that preliminary steps have already been taken to put these plans into effect.

VENEZUELA*

Recent political developments in Venezuela are in general favorable to the US, and the denial to the US of petroleum is unlikely to become a government policy. Communist control of labor is decreasing rather than increasing. There are several points, however, in which the producing fields are peculiarly vulnerable to sabotage. There has been, furthermore, ample opportunity for trained saboteurs to enter the country, and they may be assumed to have done so.

Both the Betancourt regime in its last months and the present Gallegos administration have shown increasing concern over the potentialities of the Soviet threat, and, as a result, Venezuelan policy has moved more and more into the orbit of the US. The recent history of the government party, *Acción Democrática*, justifies the conclusion that earlier acceptance of support of the Communists (at the time of the revolution in 1945) was a marriage of convenience only. It is expected that the Venezuelan government will continue to support US petroleum policy by employing all

* The situations as to Venezuela and as to Aruba and Curaçao are discussed separately in the following paragraphs. As other Western Hemisphere installations — Mexico, Colombia, Peru — are of minor present importance compared with Venezuela and Aruba and Curaçao, they are not included. Dangers of enemy direct action — considerable particularly against Aruba and Curaçao from submarines approaching close to bombard — are likewise beyond the scope of this paper.

the means at its disposal — however scant these may be — to protect installations and insure continued production. It is true also that petroleum is the source of one-third or more of the Venezuelan government's revenue. How readily the Venezuelans would accept additional assistance from the US, such as receiving a special security mission, would depend on (a) their estimate of the immediate danger, and (b) whether the project could be presented to them as a logical extension of Venezuelan policy in regard to the military and naval missions they have already received.

There can be no doubt that *Acción Democrática's* antipathy to Communists is increasing, and that the party appears determined to remove the Communists from the labor field in general and from the petroleum industry in particular. Thoroughly reliable figures are unavailable, but a report dated 18 February 1948 states that there are 35 to 45 thousand persons employed in the petroleum industry, of whom 5,000 are believed to be Communists. In December 1946 the corresponding number was estimated to be 12,000. In 1947, when the national labor confederation (*Confederación de Trabajadores Venezolanos*) was formed, *Acción Democrática* prevented the election of any Communists to office. Early in 1948, the 15 Communist members of the board of directors of the national federation of petroleum workers (*Fedepetrol*), which is the most important federation in the national confederation, were expelled. The fact that capabilities of local Communists are limited, however, does not guarantee against any labor disturbances, since strikes for wages could get out of hand and result in considerable reduction of output, even if there were no deliberate intention to sabotage. Strikes of other unions in allied industries furthermore (transportation for example) from which Communist control may not yet have been eliminated could have similar adverse effects. It is estimated, however, that these possibilities are of minor importance compared with the danger of sabotage by expert agents already in Venezuela or later introduced from outside.

Recent oil-company estimates as to likelihood of sabotage differ, but enemy capabilities are at least as great as they were during World War II, when much more than existing protection was considered necessary. Most vulnerable are the pumping stations, each of which could be destroyed by a single explosive charge and would then require about 18 months for replacement; and the Los Maroches power station in the Lake Maracaibo district. In addition, the fields are peculiarly vulnerable in that two-thirds of Venezuelan production is from Lake Maracaibo, where the rupture and firing of a single well could produce a conflagration almost impossible to extinguish and destructive of the production of the entire area. At present, key installations cannot be considered adequately protected, even though plans for national guard or army posts near danger spots are being considered, and studies made in 1942-43 are available as a basis for additional precautions. The companies hope that the Venezuelan government will take the initiative in requiring employee-identification badges, a step which the companies are reluctant to take for fear of stirring up labor difficulties. It is estimated that adequate and immediate protection in case of emergency does not, because of lack of proper training, lie within the capabilities of the Venezuelan police or armed forces.

Several indications suggest that the USSR and the Soviet Embassy may be planning for future sabotage operations. The Ambassador himself (accredited since late 1946) is a petroleum geologist, and he has a staff sufficient to direct any agents that may have slipped in. As early as 1943, trained agents are reliably reported to have entered the country, and, though their primary purpose at that time was to stir local Communists to action, it is entirely possible that they could be used in sabotage operations as well. Immigration from Russia and satellite countries has greatly increased; the records show no Slavic migrants prior to 1946, 109 in 1946, and 2,915 (including non-Slavs from satellite countries) in 1947. While every effort — with the Venezuelan government cooperating in every respect — has been made to screen these people, it is quite possible that well trained agents may have been included among the almost 3,000 migrants.

In spite, therefore, of a generally favorable situation in governmental orientation and in labor, it must be assumed that expert saboteurs are in Venezuela at present, and that they have the capabilities, failing a much more comprehensive protective program in which US assistance would almost certainly be necessary, of seriously reducing Venezuelan oil production. It is probable that this group could also carry out, or at least assist with, similar activities in Aruba and Curaçao.

ARUBA AND CURACAO

About 60 percent of the total Venezuelan production of crude oil is refined on Curaçao and Aruba, where two of the largest oil refineries in the world are located.* The production of these refineries amounts to about eight percent of the world total or the approximate equivalent of the oil allotments to the Marshall-plan countries. As a consequence these refineries are a primary enemy strategic Western Hemisphere target, especially since their destruction would not only create an immediate shortage of refined petroleum products but would also nullify the utility of a large percentage of Venezuelan crude, since neither the tankers nor refinery capacity would be available to transport and process this oil elsewhere.

In the event of either (1) further deterioration in the relations between the US and the USSR, or (2) a decision by either the US or the USSR to begin hostile operations against one another or against powers allied to one another by ties of friendship or treaty, intensive efforts to sabotage these refineries by the USSR are to be expected.

Because of highly favorable working conditions, the friendly attitude of the native population toward the US, and the absence of Communist-directed labor organizations, the possibility of subversive action arising from local Communist penetration of labor is unlikely. The Netherlands Colonial Government has cooperated with the oil companies in refusing admission to known Communists and labor agitators. On two recent occasions it has deported those who succeeded in gaining admittance. (Con-

* In 1947 Venezuelan crude production was 434 million barrels; 38 million were refined in Venezuela, and 396 million were exported. Of the exported crude, 260 million went to Aruba and Curaçao, 93 million to the US, 11 million to France, and smaller quantities to various other countries. More than 95 percent of the crude received at Aruba and Curaçao is from Venezuela; the balance is from Colombia.

templated changes in the political status of Curaçao and Aruba might temporarily affect the ability of the US to safeguard the security of the refineries. However, problems arising from such a change could rapidly be solved in a manner satisfactory to US strategic interests.) The oil companies themselves exert a firm control over labor and have encouraged the growth of employees' advisory committees as a device to combat the rise of labor unions. On Curaçao, such unions as exist are sponsored by the Roman Catholic Church and concern themselves primarily with welfare problems. On Aruba, the labor union is primarily the personal creation of a single individual, Henny Eman, and is designed to maintain his political power. There has been no notable labor unrest on either island since 1943.

In the absence of Communist penetration of labor organizations, Soviet sabotage activities will therefore be confined to direct operations against the refinery installations themselves by trained Soviet operatives. These agents will, it is estimated, enter the colony in the guise of either migrant laborers or commercial travelers from Venezuela and/or other Caribbean areas (Soviet agents are reported to have been among recent DP arrivals in Venezuela), or directly from Soviet submersible craft ordered to the area for the purpose of transporting operatives to their targets.

Present security measures for protecting the refineries from direct sabotage by Soviet agents are inadequate. Although employees wear number-picture badges, there is no patrol of property lines or fences. Intelligence coordination between the Colonial Government and company management on the one hand and Western-power intelligence services on the other are not adequate to prevent the inadvertent hiring of sabotage experts. The US does not maintain security personnel on the islands. The Colonial Government merely pursues a policy of denying entrance to Curaçao and Aruba of all known Communist agitators as distinguished from specially trained saboteurs. In case of emergency, there are not sufficient Dutch troops on the islands to afford adequate protection either to the refineries or to harbor installations, which are particularly sensitive to sabotage because of the geographic configuration and hydrographic condition.

Favorable factors for the protection of the refineries from sabotage are the maintenance of effective fire-fighting organizations and equipment, the presence of guards throughout the refineries and at plant entrances, plans for the establishment of machine-gun posts at strategic points, antisabotage and defense experience gained during World War II, and the friendly disposition of the Netherlands Colonial authorities toward whatever security precautions the US may elect to take.

Despite these favorable factors, however, and in the absence of additional precautions on the part of (1) the Netherlands Colonial Government, (2) the refineries themselves, and (3) the US government, it is estimated that Soviet sabotage on Curaçao and Aruba would succeed in material reduction of the productive capacities of the refineries.

~~CONFIDENTIAL~~

#8a

BRICEÑO Linares, Antonio Ignacio
(Pronounced: Bree-SAYN-Yo)

VENEZUELA

Minister of National Defense

Appointed to the cabinet on February 22, 1961, Briceño has publicly and strongly supported democratic, constitutional government and has affirmed that the role of the armed forces is not to become involved in politics but rather to defend the people.

From an upper middle-class family of old Spanish stock, Antonio Briceño was born to Rafael Briceño Graterol and Emilia Rosa Linares on July 31, 1913, at Carvajal, in the State of Trujillo. After completing military school and graduating from the Venezuelan Naval Academy, he chose aviation as a career in 1938 and entered the Venezuelan Military Aviation School. During 1940 he took a nine-month course in naval aviation and air navigation at the U. S. Naval Air Station, at Pensacola, Florida. Most of Briceño's subsequent training assignments have also been in the United States, including tours at the Air Tactical School, Tyndall Air Force Base, Florida (1946) and at the Air Command and Staff School, Maxwell Air Force Base, Alabama (1951). According to reliable sources, in September 1955 Briceño was associated with a group of officers who were arrested for complaining about the venality of top-ranking officials in the government of President Marcos Pérez Jiménez (1952-58). His subsequent assignment as Air Attaché at the Venezuelan Embassy in Washington may have been due to the desire of the regime to keep him out of the country.

Very pro-US in attitude, Briceño admires this country's democratic institutions and sincerely desires close ties of friendship between the United States and Venezuela. He speaks English fairly well, has traveled widely and his military knowledge is considered superior to that of his contemporaries.

Of a somewhat retiring nature, Briceño never expresses himself forcefully, but rather quietly and mildly. He is well-mannered, and his personal conduct is above reproach. With regard to social activities, Briceño limits himself to properly fulfilling the responsibilities of his position, attending all necessary functions. A devoted family man, he is married to the former Yolanda Celia Rodríguez. The couple have two daughters, Maria Fedora (18) and Glenda Lucia (16). Briceño's religion is Roman Catholic.

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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CENTRAL REFERENCE
BIOGRAPHIC REGISTER

PEREZ, Alfonso, Juan Pablo
(Pronounced: - PAH-Ess)

VENEZUELA

Minister of Mines and Hydrocarbons

A lawyer and top expert on Venezuelan petroleum matters, Juan Pablo Perez has been Minister of Mines and Hydrocarbons since the inauguration of President Romulo Betancourt in February 1959. He is one of two Democratic Action (Accion Democratica - AD) party members in Betancourt's coalition cabinet and one of the best known of the ministers, having served as Minister of Development under the AD government of 1945-1948.

A man of proven capability, Perez enjoys a very strong position of confidence and influence with President Betancourt, not only in economic matters but, according to one reliable source, in foreign policy decisions as well. His extraordinary influence is not due to political strength, but rather it is based on his personal relationship with Betancourt. Closely associated with Betancourt since the late 1920's, when both were student revolutionaries against dictator Juan Vicente Gomez (1908-1935), Perez has reinforced this intimacy by his technical and theoretical expertise as an economist, his intelligence, his argumentative powers, and his sense of purpose.

A positive and outspoken man seeking the best possible deal for his country, Perez has long been a source of worry and concern to the representatives of private oil companies in Venezuela, particularly during the 1945-1948 period when many aspects of his rather nationalistic petroleum policy were innovations. However, in March 1960 a prominent petroleum company representative in Venezuela reported that in talking with Perez he had gained the impression that the Minister "may now be willing to admit to some of the obvious facts of life concerning the international oil business." Further proof of this new understanding on Perez' part is evidenced by his firm opposition to new taxes on oil companies, reiterating frequently his main argument that it is necessary to develop confidence in the country and obtain new investments in oil and other industries, that Venezuela cannot create the impression with the oil companies that each time "we have a problem or we are afraid of something," we impose new taxes on them. He added that what should be done is to obtain the confidence and support of the oil industry so that it will increase its cooperation with Venezuela in various ways, such as helping in the remodeling of oil towns and increasing its bank deposits in Venezuela.

Born in Caracas in 1903, the son of well-to-do parents, Perez came to the United States in 1922 to attend the Peddie School in Hightstown,

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PEREZ Alfonso, Juan Pablo (Cont'd)

Returning to Venezuela, he entered the Central University in Caracas, where in 1928 he took part in the now famous student revolt against the dictatorship of Juan Vicente Gomez (1908-1935). Although it is not a matter of record, it is possible that Perez was either imprisoned or exiled by the Gomez regime, a fate shared by most of the active participants in the revolt. Following graduation from the Central University in 1936, after Gomez' death, he began law practice in Caracas and soon enjoyed a comfortable income and good professional reputation. In 1941 he became a professor of civil law at the Central University.

Concurrently with his professional practice Perez pursued a political career, serving as city attorney of Caracas (1937), municipal councilman (1939), and, together with Raul Leoni, on a permanent commission which revised the ordinances of the Federal District's municipalities (1939-1941). His early political career also included participation in two political movements headed by Betancourt, Venezuelan Organization (Organizacion Venezolana - OVVE) and the clandestine Democratic National Party (Partido Democratico Nacional - PDN). Both organizations opposed the government of President Eleazar Lopez Contreras (1936-1940) and were forerunners of the AD, which Perez helped to found in 1941. He also served as a member of the Chamber of Deputies (1940-1944), elected from the Federal District. In October 1945 when the AD and a group of young military officers overthrew the government of President Isias Medina Angarita (1941-1945), and established an interim Junta under the presidency of Betancourt, Perez, then AD first vice president, became Minister of Development. Perez continued as Minister of Development under President Romulo Gallegos (1947-1948) until a military coup of November 1948 ousted the AD from power. He was imprisoned until June 1949, when he was allowed to leave Venezuela for the US and established his residence in Washington, D.C. While his older children attended school in Washington, Perez worked on a codification of Venezuelan law and kept in contact with other AD members in exile. In late 1954 he moved to Mexico City for about a year in order to have a book published, and later, it is believed, returned to the US. Perez returned to Venezuela late in June 1958, six months after the fall of Marcos Perez Jimenez (1952-1958).

Perez, who is considered basically friendly toward the US, is married to the former Alicia Castillo and is the father of at least four children, the youngest believed to be a daughter born in the US in 1952. His older children - two sons and a daughter - have all attended high

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PEREZ Alfonso, Juan Pablo (Cont'd)

school and college in the US, one son having graduated with a doctorate
in law from Tulane University, New Orleans, in 1959. Perez speaks
English fluently.

December 1961

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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CENTRAL REFERENCE
BIOGRAPHIC REGISTER

MAYOBRE, Cova, Jose Antonio
(Pronounced Nye-Oh-Gray)

VENEZUELA

Ambassador to the United States and the Organization
of American States

A leading Venezuelan economist, banker and businessman, Jose Antonio Mayobre was appointed Ambassador to the United States and to the Organization of American States (OAS) on 13 December 1960. From May 1958 until his present appointment Mayobre served as Minister of Finance, in which capacity he displayed an orthodox approach to economic problems and exerted a conservative influence in the formation of fiscal programs. He is the chief proponent of a policy of tight credit and a balanced budget, both of which measures he hopes will maintain economic stability and preserve the international parity of the bolivar (Venezuelan monetary unit). He favors a private enterprise economy with state intervention only where it clearly serves the public interest, and he strongly supports measures to attract foreign investment capital for new enterprises, preferably in joint participation with Venezuelan capital.

Born in Cumana in the State of Sucre on 21 August 1913, Jose Mayobre joined the Communist Party of Venezuela as a teen-age student, and spent most of the 1930's in hiding or in exile. According to his own statement, he joined the Venezuelan Communist Party because it was the only means he could find to oppose actively the dictatorship of Juan Vicente Gomez (1908-35). He left the party after it was legalized in 1941 and since then has moved steadily away from Marxism. After graduating in political science from the Central University of Caracas in 1944, he attended the London School of Economics for a year on a British scholarship. Returning to Venezuela, he obtained employment with the Central Bank and was later appointed to the National Economic Council. He served as Alternate Governor of the International Monetary Fund (1947-48), and as President of the Agricultural and Livestock Bank in 1948. From 1949 through 1952 he was engaged in private business and teaching, and also served as director of the Venezuela Sugar Cane Growers Association in 1951-52. During the Perez Jimenez dictatorship, Mayobre was employed by the United Nations Economic Commission for Latin America and served in Chile as Chief of the Economic Development Division.

Mayobre is highly respected for his technical qualifications, energy, intelligence, and ability. Well-disposed toward the United States, he

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492
MAYORE Cova, Jose Antonio (Continued)

VENEZUELA

speaks English and has been frank, friendly, sociable and cooperative with US officials. In conversations on economic subjects he often sounds like a conservative rather than the liberal he claims to be in the words of a Venezuelan businessman. "If I were to close my eyes, I would think I was talking to a Wall Street banker." The author of several works on Venezuelan and general economics, Mayore has been associated with the Economic Society of London, the Society of Political Economy of Paris, and the Econometric Society of Chicago. President Betancourt has expressed complete confidence in the ability and democratic ideals of Ambassador Mayore.

Mayore's wife, the former Esperanza Machado, to whom he has been married since 1941, shows no particular interest in political affairs, but rather devotes her energies to taking care of her family. The couple has two sons, Jose Antonio, the elder, who is 19 years old, and Eduardo.

December 1961

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~~SECRET~~
~~NOFORN~~

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CENTRAL REFERENCE
BIOGRAPHIC REGISTER

LEONI, Raul
(Pronounced: Lay-OH-Nee)

VENEZUELA

President of the Democratic Action Party, Senator
and President of the National Congress

Elected president of the new Executive Board of the Democratic Action Party (Accion Democratica - AD) in January 1961, Raul Leoni has been president of Venezuela's largest political party since 1959. A party founder and distinguished national leader, Leoni had been acting chief of the party since the inauguration of Romulo Betancourt as President of the Republic in February 1959. He is a staunch supporter of the coalition government and of Betancourt, whom he has known intimately for many years as a fellow revolutionary, exile and national leader. Leoni is one of the "old guard" of the AD, the mature and long established party leaders who, although once revolutionaries, are now moderate leftists and practical politicians. Elected to the National Senate in December 1958, he has three times been chosen by that body to be its presiding officer and the president of the National Congress as a whole.

Raul Leoni was born in 1906 in Upata, State of Bolivar. As an adolescent he was active in student groups against the dictatorship of Juan Vicente Gomez (1908-1935) and, in 1921, spent some time in one of the dictator's most notorious prisons, La Rotunda in Caracas. After completing his secondary schooling in Ciudad Bolivar, Leoni entered the Central University to study law. Displaying a marked aptitude for student politics, he became president of the Law Student's Association and later organized and was elected president (1927-1928) of the Federation of Venezuelan Students (Federacion de Estudiantes Venezolanos - FEV). Together with Betancourt, Jovito Villalba and others, Leoni played a prominent role in the celebrated "Students Revolt of 1928," and was one of the fortunate rebels who managed to escape from Venezuela after Gomez crushed the uprising. Proceeding to Colombia, he lived with other young Venezuelan exiles, including Betancourt, in a communal state of poverty.

After the death of Gomez (December 1935), Leoni returned to Venezuela and in 1936 was elected deputy to the National Congress from the State of Bolivar. His election was annulled by a federal court apparently because of his revolutionary background, but Leoni continued active in politics by aiding Betancourt to found Venezuela Organization (Organizacion Venezolana - OAVE) in 1936 and the National Democratic Party (Partido Democratico Nacional - PDN) in 1937, both of which were leftist revolutionary movements in opposition to the regime of President Eleazar Lopez Contreras (1935-1941). When all political parties were disbanded by order

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Date 14 August 1979

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12

LEONI, Raul (Continued)

VENEZUELA

of the government in February 1937, he became clandestine director of the PDN. Expelled from Venezuela later the same year, he returned to Colombia and studied at the National University in Bogota, receiving a doctorate in law and political science in 1939. Repatriated shortly after graduation, he accepted an appointment to a permanent commission which revised Caracas' municipal ordinances. In 1941 the AD was established and Leoni became active in the new party as a member of its National Directorate and editor of its weekly publication.

In October 1945, discontented young military officers, in alliance with the AD, overthrew the government of Isaias Medina Angarita (1941-1945) and established the Revolutionary Junta of Government (1945-1948) headed by Betancourt. Leoni was a member of the Junta and also served as Minister of Labor during both the Junta government and its freely elected successor, the AD government of President Romulo Gallegos. Gallegos was ousted by a military coup in November 1948. The succeeding Military Junta of Government (1948-1952) outlawed the AD and expelled most of the party's leaders. Leoni was imprisoned for eight months and then exiled. After a year's residence in the United States, he moved to Costa Rica where he remained until 1955. In Costa Rica he was very active as a leader and spokesman for AD exiles in that country. Having been unemployed during this period and anxious to regain useful employment, Leoni solicited and received a job with the ILO as representative and adviser to the Bolivian Ministry of Labor in 1955. He worked in La Paz for two years, and then moved to Lima, Peru, in mid-1957, but was asked to leave the country as a result of pressure brought to bear on Peruvian officials by the Venezuelan Government of President Marcos Perez Jimenez (1952-1958). Leoni returned to Venezuela soon after the fall of the Perez Jimenez regime in January 1958. Elected AD first vice president the following August, he helped to reorganize the party as Venezuela's strongest political force.

Of obvious intelligence, Leoni has demonstrated considerable ability both as a politician and a lawyer. He is quiet, studious, and self-disciplined in manner, and seems to prefer to work in the background rather than in the limelight of political activity. Within AD councils he reputedly relies on tactics of persuasion through free debate rather than strong political sanctions. Sincere, optimistic, reasonable and industrious, he commands the admiration and respect of his party and most of the members of the National Congress.

Described as having regular features, Leoni is partially bald, and greying at the temples. He wears horn-rimmed glasses which lend an academic air to his serious, even stern, expression. He is married to a Costa Rican, the former Menca Fernandez. The couple has at least five children.

December 1961

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TELEGRAM INFORMATION REPORT TELEGRAM

CENTRAL INTELLIGENCE AGENCY

NLK-77-872

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STANDARD
(When Filled In)

CLASSIFICATION — DISSEMINATION CONTROLS

RETAIN OR DESTROY
 DCS - 31 MAY 1962
 PRIORITY

COUNTRY - VENEZUELA

REPORT NO. TDCS-3151

SUBJECT. ' ' ' ADDITIONAL INFORMATION ON THE LEFTIST
MILITARY UPRISING IN EASTERN VENEZUELA

DATE DISTR. 4 MAY 1962

~~PRECEDENCE~~ PRIORITY

DATE OF INFO. 4 MAY 1962

REFERENCES

PLACE &
DATE ACQ.
A?FRAISA!

THIS IS UNEVALUATED INFORMATION. SOURCE GRADINGS ARE DEFINITIVE. APPRAISAL OF CONTENT IS TENTATIVE.

SOURCE

1. AN AVENSA COMMERCIAL AIRCRAFT LEFT CARUPANO WITH A LOAD OF MARINE OFFICERS THE MORNING OF 4 MAY 1962 BUT RETURNED SHORTLY THEREAFTER.

— ~~SMITH-BUNDY~~
— ~~DUNGAN~~ ✓
— GILDNER
— KAYSEN

2. ALL ROADS HAVE BEEN CLOSED INTO CARUPANO AND GOVERNMENT TROOPS ARE PLANNING TO MOVE INTO THE AREA FROM CIUDAD BOLIVAR.

— NUMBER
— RASKIN
ENT SAUNDERS

3. SECONDARY STUDENTS IN CARIPITO AND ONE SECONDARY SCHOOL IN CARACAS HAVE BEGUN RIOTING. HANDBILLS ARE BEING DISTRIBUTED AT CENTRAL UNIVERSITY IN CARACAS CALLING FOR THE OVERTHROW

CLASSIFICATION — DISSEMINATION CONTROLS

STATE	ARMY/ACSI	NAVY	AIR	JCS	SECDEF	NSA	NIC	NSA	OCI	ONE	OCR	ORR	OO	DIA	EXO	REPCINCLANT
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TELEGRAM INFORMATION REPORT TELEGRAM

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Date impossible to determine.

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26 OCT 1977

CIA Mr TWK 77-872

BY Wm NAME, DATE 6/19/78

TDCS -3/510,041.

IN 30049

PAGE 2

OF THE GOVERNMENT.

5. FIGHTING HAS BROKEN OUT IN CARUPANO BETWEEN THE REBELS.
AND GROUPS OPPOSING THE EXTREMISTS.

6. FIELD DISSEM: STATE ARMY NAVY AIR CINCARIB CINCLANT.

7.

END OF MESSAGE

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(When Filled In)

TDCS -3/510,044

IN 30144

PAGE 2

BY THE GOVERNMENT HAD LANDED AT CARUPANO AND JOINED THE REBELS.
THE RADIO BROADCAST A REQUEST TO ALL STUDENTS AND MILITARY
RESERVISTS TO BRING THEIR ARMS AND SUPPORT THE REBELS AND AN
APPEAL WAS ALSO MADE TO ALL CLANDESTINE AND COMMERCIAL RADIO
STATIONS TO JOIN THE REBELS.

3. THE REBEL RADIO IN CARUPANO ALSO ANNOUNCED THAT THE
REBEL LEADERS HAD DECIDED TO ATTACK THE OIL COMPANY INSTALLATIONS
IN NEARBY CARIPITO.

4. FIELD DISSEM: STATE ARMY NAVY AIR CINCLANT CINCARIB

EXCLUDED
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END OF MESSAGE

CLASSIFICATION - DISSEMINATION CONTROLS

NLK-77-281

#2

TELEGRAM INFORMATION REPORT TELEGRAM**CENTRAL INTELLIGENCE AGENCY**

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CLASSIFICATION — DISSEMINATION CONTROLS

COUNTRY VENEZUELA

SUBJECT DISTURBANCES IN CARACAS

DATE OF INFO. 2-4 JUNE 1962

PLACE & DATE ACQ. 1
APPRAISAL 2**RETAIN OR DESTROY**~~SMITH-RIDGWAY~~~~DUNCAN~~~~GILDNER~~~~KAYSEN~~~~PETERSEN~~~~SCHNEIDER~~~~TAYLOR~~~~BELE~~~~FORRESTAL~~~~RASKIN~~

REPORT NO. TDCS-3/512,822

DATE DISTR. 5 JUNE 1962

PRECEDENCE PRIORITY

REFERENCES

IN 45841

TDCS-3/512,587

TDCS-3/512,813

JUNE 1962)

THIS IS UNEVALUATED INFORMATION. SOURCE ~~CONFIDENTIAL~~ IS DEFINITIVE. APPRAISAL OF CONTENT IS TENTATIVE.

SOURCE

1. DURING THE MID-MORNING OF 4 JUNE 1962 BUSES WERE BURNED IN THE VICTORIA AND CATIA SECTIONS OF CARACAS. (SOURCE COMMENT: A MEMBER OF THE NATIONAL GUARD SAID THAT THE SITUATION IN THE STREETS COULD BECOME SERIOUS).

2. ON THE MORNING OF 4 JUNE A BOMB EXPLODED AT THE GENERAL ELECTRIC COMPANY ON SABANA GRANDE, AND AN UNEXPLODED BOMB WAS FOUND IN THE PEPSI-COLA COMPANY OFFICES. DISTURBANCES IN CARACAS ON 3 JUNE INCLUDED A BOMB WHICH EXPLODED NEAR A LARGE APARTMENT BUILDING IN EASTERN CARACAS AND SHORTLY THEREAFTER ANOTHER BOMB WHICH EXPLODED FURTHER EAST OF THE BUILDING. SOME EXPLOSIONS ALSO OCCURED NEAR THE AVILA HOTEL. EARLIER THAT AFTERNOON THERE WAS GUN FIRE IN THE 23RD OF JANUARY HOUSING

CLASSIFICATION — DISSEMINATION CONTROLS

~~CONFIDENTIAL~~

STATE	ARMY/ACSI	NAVY	AIR	JCS	SECDEF	NSA	NIC	USIA	OCI	ONE	OCR	ORR	OO	DIA	EXO
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Date 23 Dec 77

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TDCS -3/512,822

IN 45841

PAGE 2

AREA, AND SHOTS WERE EXCHANGED BETWEEN SOLDIERS AT THE URDANETE

(ALSO RECEIVED URDANETA) BARRACKS AND LEFTIST SNIPERS IN THE AREA.

3. THE PARTIDO COMUNISTA DE VENEZUELA (PCV, COMMUNIST PARTY OF VENEZUELA) IN PUERTO LA CRUZ WAS ON AN ALERT STATUS THE NIGHT OF 2 JUNE WITH ORDERS TO SUPPORT A MILITARY UPRISING WHEN AND IF THE MILITARY MOVED.

4. THE GOVERNMENT IS TAKING AGGRESSIVE MEASURES AGAINST THE COMMUNISTS AND EXTREMISTS. GUSTAVO MACHADO MORALES, A MEMBER OF THE NATIONAL SECRETARIAT OF THE PCV WHO WAS RETURNING FROM AN EXTENDED VISIT TO MOSCOW, WAS ARRESTED UPON ARRIVING AT MAQUITIA AIRPORT. (FIELD COMMENT: IT WAS REPORTED IN THE NEWSPAPERS THAT RAUL LUGO ROJAS, DEPUTY OF THE MOVIMIENTO DE IZQUIERDA REVOLUCIONARIA (MIR, MOVEMENT OF THE REVOLUTIONARY LEFT), WAS ARRESTED IN PUERTO CABELLO WHERE HE PARTICIPATED IN THE REBELLION).

FIELD DISSEM: STATE ARMY NAVY AIR CINCLANT CINCARIB.

- BELMEX
- KYA
- CIPRES
- CIPRES
- CIPRES

END OF MESSAGE

CLASSIFICATION - DISSEMINATION CONTROLS

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CLASSIFICATION — DISSEMINATION CONTROLS

FILE

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COUNTRY VENEZUELA

REPORT NO. TDCS-3/522,379

SUBJECT PLANS OF VENEZUELAN MILITARY TO OVERTHROW
THE GOVERNMENT OF PRESIDENT ROMULO BETANCOURT

DATE DISTR. 19 SEPTEMBER 1962

PRECEDENCE ROUTINE

DATE OF INFO. 17 SEPTEMBER 1962

REFERENCES
TDCS-3/522,850

PLACE &
DATE ACO,
APPRAISAL

~~IN 2/16/85~~
KAIDL
KILDUFF
PETERSEN

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SOURCE

~~BELK~~
~~FORRESTAL~~
~~JOHNSON~~
~~KLEIN~~
~~KOMER~~
~~RASKIN~~
~~SAUNDERS~~

1. A GROUP OF VENEZUELAN MILITARY PERSONNEL LED BY COLONEL ANGEL NIETO BASTOS, CHIEF OF PERSONNEL (J-1) OF THE JOINT GENERAL STAFF OF THE MINISTRY OF DEFENSE, AND CONSISTING OF ALL THE IMPORTANT GROUPS IN THE ARMED FORCES, IS PLANNING TO OVERTHROW THE GOVERNMENT OF PRESIDENT ROMULO BETANCOURT IN THE IMMEDIATE FUTURE.

2. THE GOVERNMENT IS AWARE OF THE EXISTENCE OF THE PLOT AND THE FACT THAT NIETO IS THE LEADER. THE PLOTTERS BELIEVE THEIR MOVEMENT IS TOO LARGE AND WELL ORGANIZED FOR THE GOVERNMENT TO DO ANYTHING AT THIS POINT TO HALT IT. NIETO EXPECTS TO BE ARRESTED MOMENTARILY WHICH WOULD IN TURN TRIGGER THE REVOLT.

~~SECRET~~

CLASSIFICATION — DISSEMINATION CONTROLS

~~EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION~~

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Approved for Release
Date 10 MAY 1970

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3. FIELD DISSEM: STATE ARMY NAVY AIR CINCLANT CINCARIB.

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11E-89-65
6 December 1965

Revised by 05-275
date 11/11/65

NATIONAL INTELLIGENCE ESTIMATE

NUMBER 89-65

Venezuela

Submitted by

W. H. ...
DIRECTOR OF CENTRAL INTELLIGENCE

Concurred in by the
UNITED STATES INTELLIGENCE BOARD

As indicated overleaf
16 DECEMBER 1965

Authenticated

James H. ...
EXECUTIVE SECRETARY, USIB

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VENEZUELA

THE PROBLEM

To estimate the situation in Venezuela and the prospects under the Leoni administration (until general elections in 1968).

CONCLUSIONS

A. Venezuela will probably continue to experience political stability and a favorable rate of economic growth over the next few years. However, it will still face deep-seated social problems. Most economic and social reform programs will be pushed vigorously through 1966. Thereafter budgetary restraints are likely to lead to some loss of momentum. This slowdown will almost certainly become a major issue in the December 1968 elections.

P. The government and security forces have dealt reasonably effectively with the leftist insurgency; the capabilities of the guerrillas and terrorists will probably decline further. The insurgents are not likely to pose a major threat to the government during the period of this estimate.

C. Some misgivings regarding the Leoni administration still persist among the military, but the military establishment is generally disposed to support the constitutional government. We believe that there is little chance of a successful military coup within the period of this estimate.

D. Leoni's governing coalition will probably hold together at least until the near approach of the elections scheduled for December 1968. The contest is then likely to be between two center-left parties, AD and COPEI, each claiming to be the more effective means of achieving social reform. If, in anticipation of this contest, Leoni should initiate a more radical reform program, he might thereby antagonize the military and increase the chances of a military coup.

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E. The administration will make some attempts to increase Venezuelan influence in Latin American affairs, while holding to the Betancourt Doctrine of denying recognition to governments which come to power by overthrowing constitutionally-elected ones. Manifestations of economic nationalism—and in particular resentment over US restrictions on the importation of Venezuelan oil—will probably produce frictions in relations with the US.

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DISCUSSION

I. INTRODUCTION

1. Venezuela is of special interest to the US for two particular reasons. One is its economic significance as the world's largest oil exporter and the locus of US capital investments of roughly \$3 billion. (In only two countries, Canada and the UK, are US investments higher.) The other is its political significance as a test of whether a Latin American country with a long history of dictatorial rule and an active Communist insurgency movement can reform its economic and social institutions by democratic means.¹

2. Romulo Betancourt laid the foundation of these reforms and of most present Venezuelan policies. During his turbulent presidency (1959-1964) Betancourt initiated sorely needed social and economic reform programs, survived attempts to overthrow him by extreme leftists and military rightists, and managed to instill in the citizenry a resolve to preserve its freedoms and representative institutions. In late 1963, when the Castroites and Communists sought to disrupt the scheduled elections with an intensified campaign of terrorism, some 90 percent of the Venezuelan voters defied the danger and came out to choose a new President. With the orderly succession of Leoni to the presidency in March 1964, democracy in Venezuela passed a significant test.

II. THE PRESENT SITUATION

A. Leoni, His Coalition, and His Opposition

3. The Leoni administration, in its style, complements rather than imitates its predecessor. As a long time associate in founding and guiding the Democratic Action (AD) movement, Leoni shares Betancourt's views. In contrast to Betancourt's dynamic promotion of fresh ideas and policies, however, Leoni has been the behind-the-scenes party strategist, more adept at conciliation than crusade. His administration has concerned itself more with implementing programs already begun than with devising new ones.

4. Even so, Leoni has turned his own talents to considerable account. Profiting from Betancourt's experience, he has made a point of touring the country, and in doing so has maintained frequent contact with the military. He has preserved the solid organization of his AD party. Though he did not maintain Betancourt's coalition with the next largest party, the Social Christians (COPEI), after seven months of patient negotiation he did put together an effective coalition with the center-left Democratic Republican Union (URD)

¹ Venezuela, occupying about 352,000 square miles, has a population of about 8,700,000. It is rich in resources and has the highest per capita GNP in Latin America. Nevertheless, a large proportion of the population lives in dire poverty; efforts to improve this situation rapidly are complicated by the high rate of population increase (3.4 percent a year).

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and the center-right Democratic National Front (FND). In his leadership of this three party coalition, Leoni has demonstrated skill in achieving consensus.

THE VENEZUELAN CONGRESS*

	CHAMBER OF DEPUTIES	SENATE
The Government Coalition	108	34
Democratic Action (AD)	66	24
Center-left, comparable in policy to European Social Democrats and to the APRA in Peru.		
Democratic Republican Union (URD)	26	7
Vehicle of Jovito Villalba and, since the purge of its extreme leftists, close to the AD in policy.		
Democratic National Front (FND)	14	3
Personalistic party revolving around the intellectual, political scientist, Arturo Uslar Pietri, who ran first in Caracas in 1963; mostly center-right businessmen and military, but includes some far rightists.		
The Opposition Parties	73	16
Social Christians (COPEI)	39	8
A responsible opposition modeled on the European Christian Democratic movement; its youth increasingly look to the more radical Chilean PDC for inspiration.		
Popular Democratic Force (FDP)	12	2
Loosely knit conglomeration of leftists who backed Admiral Wolfgang Larrazabal in the last election; many of its present leaders were bitter adversaries of AD, but the party presently offers more responsible opposition.		
Minor Leftist Elements	7	0
Independents and Rightist Elements	15	6

* The Communist Party (PCV) and the Movement of the Revolutionary Left (MIR) were excluded from the 1963 election and are not represented in the present Congress.

5. The coalition has been operating reasonably smoothly, but there has been a gradually increasing concern within the administration, as well as among its opponents, that there is too little impetus in most governmental pursuits. One wing of the AD is particularly disturbed by this trend as well as by lack of support for the party among university students. Leoni's *modus operandi* is not styled to capture the imagination, and many Venezuelans are coming to feel that his administration is merely muddling forward when the dimensions of the country's problems are so large as to require vigorous action.

6. The principal opposition party, COPEI, has assumed a role unprecedented in Venezuelan history—that of a responsible opposition. The party's leader, Rafael Caldera, has sanctioned a line of autonomy of action—neither blind support for nor blind opposition to administration proposals. However, as COPEI has seen weaknesses in the administration, and as reconciliation with AD has come to appear more and more unlikely, COPEI is becoming more outspoken in its criticism of the government. Though COPEI lacks AD's

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depth of leadership and extent of organization, it has taken encouragement from the sweeping Christian Democratic victories in Chile and regards itself as the Venezuelan party of the future. COPEI's youth wing, which is well to the left of the party leadership, competes effectively with the Communists for influence among university students. It is also trying, with some success, to compete with AD for leadership in rural areas. The principal political competition in Venezuela is coming to be primarily between two parties of the Center-Left—AD and COPEI.

B. The Insurgency Problem

7. The prestige of the FALN, the insurgent organization supported by the Venezuelan Communist Party (PCV) and the Castroist Movement of the Revolutionary Left (MIR), has declined since its dramatic failure to disrupt the 1963 elections; the insurgent movement has been badly hurt by the government's aggressive counteraction. The government has captured many of its prominent leaders, has unearthed some of its arms caches, has intercepted a substantial amount of financial aid from abroad, and has generally kept the insurgents on the defensive. Incidents of urban terrorism have greatly decreased. The number of guerrillas in the countryside has not changed substantially, but several deserters have acknowledged that the FALN field units are short of food and other supplies, and that their morale is low. The army's counterinsurgency capabilities have improved, but the difficulty of hunting down the guerrillas, particularly in western Venezuela, remains formidable. Areas have been declared cleared of guerrillas only to experience fresh attacks soon after the announcement.²

8. Important elements of the PCV and some elements in the MIR doubt that a policy of armed struggle can be effective under the present conditions in Venezuela. They have seen the Communist Party fall from its strong position in 1958-1959, when, as a legal party and a major participant in the 1958 revolution, it could count on 30,000 members and command over 180,000 votes in the national election, to its present state of penury and ostracism. The only major sphere of political support for the PCV and MIR lies within the university; they have been unable for the most part to crack the AD hold over labor and the peasantry. Hoping to help the PCV regain its former influence, a major faction has been seeking to prevail on Leoni and on the party's own militant wing to negotiate a peaceful settlement. This faction would be willing to halt the fighting if Leoni would restore the legality of the PCV and the MIR and grant amnesty to the insurgents. However, their inability to control the diehards in the guerrilla movement would make an effective ceasefire unlikely.

9. Leoni has shown no inclination to enter into such a bargain. In contrast to the situation which prevailed during most of Betancourt's administration,

²Total FALN strength is estimated at 1,500. The number of activists the organization could put into the field at any one time is probably much lower. Moreover, recent FALN problems—the considerable number of arrests of members, internal dissension, financial difficulties—further limit its operational strength.

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initiatives. The need to cope with the insurgency problem has continued to divert part of the government's energies. In spite of all that has been done to date, Venezuela's high per capita GNP, as a statistic, still hides a very sharp disparity in living conditions. A large proportion of the population lives at the subsistence level, many almost completely outside the commercial economy.

18. Low-cost housing is an example of a need which grows faster than the government can meet it. Campesinos seeking a better life in town have inundated Caracas, the capital city of 1,500,000; over 300,000 people now live in its shanty towns. These illiterate and unskilled peasants are poorly qualified to find urban employment; their disappointment in this respect is accentuated by the conspicuous presence of urban affluence. Meanwhile, in the countryside the availability of desirable public lands is diminishing, and political and budgetary considerations are limiting the purchase and distribution of underutilized private holdings. Moreover, since 1962 the Venezuelan Congress has reduced the land-reform appropriation. In part this reflects the realization that more land distribution will not be of much avail until the government can move ahead with the necessary ancillary services—roads, credit, housing, schools, marketing facilities, and health services.

E. Foreign Policy

19. The dominant feature of Venezuela's foreign policy is the Betancourt Doctrine which holds that recognition should be denied to any regime which comes to power by overthrowing a constitutionally elected government. Venezuela's sensitivity on this point reflects its own experience of military dictatorship and the Betancourt administration's vulnerability to a military coup. Leoni invoked the Betancourt Doctrine to justify his boycott of the November 1965 Inter-American Conference at Rio de Janeiro because the Brazilian government had assumed arbitrary powers which sharply reduced its constitutionalist character. Venezuela has also been highly critical of the US unilateral intervention in the Dominican Republic, observing that Communist participation in Venezuela's democratic revolution of 1958 was far greater than that among the Dominican rebels in 1965. Furthermore, the AD party feels an affinity with the Dominican Revolutionary Party as a party of the "democratic left" and gives it limited financial support. Nevertheless, Venezuela contributed medical and other supplies for the use of the Inter-American Peace Force and was one of the first nations to recognize the provisional government of Garcia Godoy.

20. Venezuela has sought to promote greater cooperation among Latin American states and to play a larger role in inter-American affairs. Despite some strident opposition from private industry, the administration has announced its intention to join the Latin American Free Trade Area (LAFTA). The Leoni government has also expressed a desire to become more active in and to strengthen such institutions as the Latin American Parliament.⁴ It has advocated

⁴ An association of Latin American parliamentarians from countries in which the legislative branch plays a significant role. Apart from promoting closer political ties between Latin American countries, it also seeks to strengthen the legislative branch in all of them.

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a reformulation of the OAS Charter in order to emphasize economic and social assistance. While the Leoni government rejects the concept of a permanent Inter-American Peace Force, it concedes the possible need for the use of an *ad hoc* one should a crisis arise.

21. Venezuela continues to assert a claim to some two-thirds of British Guiana, alleging that the international arbitration of 1899 which established the present boundaries was fraudulent. The Leoni government has pledged itself to a "non-violent" solution, however, and is seeking to arrange a settlement with the UK before independence is granted to British Guiana.

III. THE OUTLOOK

22. Venezuela, in part because of the sustaining effect of its oil income, will probably continue to enjoy political stability and economic prosperity during the period of this estimate. Nevertheless, patterns now beginning to emerge, particularly on the economic side, make longer range prospects somewhat less favorable.

23. There is likely to be increasing impatience on the part of many Venezuelans over the Leoni administration's failure to move as quickly and effectively as they think desirable in social and economic reform. This disenchantment is not likely to reach a level or to take a form which threatens Leoni's hold on power, but it will almost certainly be a major issue in the December 1968 elections. Leoni will probably manage to hold his coalition together at least until the near approach of the elections. If the center-rightist FND were to leave the coalition, an AD-URD combination would still have a working majority in Congress.⁵

24. The period immediately before the elections is likely to be one of much political turbulence and little governmental accomplishment as the various party leaders vie for the favor of the electorate. As the election draws closer, Leoni may attempt to push through reform legislation in order to create a rejuvenated party image for the AD candidate.⁶ By this time COPEI will almost certainly have departed from its posture of responsible opposition and have begun a free-swinging effort to establish that it is indeed Venezuela's coming party.

25. The capabilities of the FALN insurgents and guerrillas will probably decline to some extent, although it is unlikely that the Leoni administration can completely solve the insurgency problem. Sporadic acts of violence will probably occur, but we believe that the insurgents will pose no major threat to the government during the next few years. Moreover, the line that Leoni takes on this issue will probably continue to be resolute enough to satisfy the Venezuelan

⁵ Although the FND is motivated to remain in the coalition for reasons of immediate political advantage, some party members contend that its continued participation will only hurt its chances in 1968. As the election approaches, and especially if Leoni's policies alienate some military or business elements, these voices could prevail.

⁶ Leoni is constitutionally ineligible to succeed himself.

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military. Indeed, a gradual further improvement is likely in the relationship between the administration and the military. For these reasons we regard a military coup as unlikely.

26. The economy, while not meeting the goals for expansion set by the government, is likely to grow at the rate of about six percent annually. It will be paced by the rapidly expanding industrial sector, which will probably offer a widening variety of consumer goods. Despite further government investment in certain industries, the pattern of state participation in the economy will probably not change significantly.

27. Overall government spending on social and economic reform programs, which rose sharply in 1963, will probably continue to grow considerably through at least 1966. Subsequent increases in the level of such expenditure are likely to be limited. By 1967, reduced annual rates of increase in government revenues will force Venezuela to choose among the alternatives of reducing investments and social welfare expenditures, incurring budgetary deficits, or increasing taxes—perhaps on foreign oil interests. Some combination of all three prospects seems most likely. The agricultural reform program, in particular, will probably lag. It is clear, moreover, that even with rapid increases in economic activity and spending on social reform programs, most pressing social strains will persist.

28. Growth in income from petroleum exports will be only moderate. Compared with some of the Middle Eastern and African production, Venezuelan oil will continue to be high-cost in many markets, and world supplies of oil are likely to remain so plentiful as to make difficult any major expansion of Venezuelan sales. Moreover, the government's policies with respect to taxes, new concessions, and service contracts for development will tend to inhibit outside investment in the petroleum industry.

29. There will almost certainly be some intensification of economic nationalist sentiment in Venezuela during the next few years, but this will probably fall short of the same tendency in many other Latin American countries (Mexico or Chile, for example). Except in some aspects of petroleum development, Venezuela is likely to continue to welcome most private foreign investment so long as it benefits and complements local investment efforts. In this regard, the Venezuelan government may put pressure on foreign investors to undertake joint ventures with Venezuelan capital.

30. One factor conducive to the growth of economic nationalistic feeling is Venezuelan resentment over US policies on the importation of crude oil. Since prices paid in the protected US crude oil market are far above world market prices, the Venezuelans have long desired a substantial expansion of their sales in the US. They have asked for the same favorable treatment as that accorded to Canada and Mexico; over the past year or two they have come to expect some concession to their point of view. However, the decision on US oil import policy announced in December 1965 contained no significant concession to Venezuela, although the door was left open for further consideration of the subject.

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All the nationalistic elements in Venezuela, and particularly the opponents of the Leoni administration, will exploit this disappointment, condemning alleged US discrimination against Venezuela and complaining that Venezuelan economic progress is subject to the whims of US Government policies and foreign oil interests, and that the Leoni administration has proved incapable of changing this situation. The AD party's public reaction has been to emphasize that further consideration may lead to some US concession to Venezuela next year. Under continuing criticism on this issue, however, the Leoni government will probably be forced to become more critical of US policies than it has been hitherto, and might eventually find it necessary to take some retaliatory action against US companies operating in Venezuela. In any case, this is an issue which the Venezuelans will keep raising with the US Government, and one which will continue to produce frictions in the US-Venezuela relationship.

31. In other respects Venezuelan foreign policy is not likely to change much. The Leoni government will press to make the OAS more responsive to Latin American social and economic needs. It will probably participate in LAFTA, but will seek at the same time to maintain protection for its infant industries. Venezuela will keep the boundary dispute with British Guiana alive, but will probably become less vociferous about it when that country becomes independent and will almost certainly fail to achieve any settlement. However, if a pro-Communist government were to come to power in Guyana, Venezuela would become more assertive on this question.

32. All things considered, we regard the outlook for Venezuela as reasonably favorable. It has and will continue to demonstrate for Latin America the strength and resourcefulness of the democratic left. Of particular significance is its success in resisting the immediate insurgency threat of the extreme left while maintaining representative institutions and pursuing the kind of reform programs necessary to meet the worst of its social and economic shortcomings.

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